# Office of Emergency Services:

## Shortcomings in Managing Its Disaster Recovery Efforts Hamper Effectiveness

January 1997
96032

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# CALIFORNIA STATE AUDITOR

January 30, 1997

96032

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by Chapter 146, Statutes of 1996, the Bureau of State Audits presents its audit report concerning the examination of the Office of Emergency Services' (OES) disaster assistance and hazard mitigation programs to identify aspects of those operations that could be improved to produce a more efficient and cost-effective process for resolving claims and grant applications.

This report concludes that OES should remain the state entity responsible for the processing of claims for disaster assistance funds and hazard mitigation grants, even though OES needs to improve its management of California's recovery from disasters. OES needs to better plan its recovery from disasters by standardizing procedures, establishing priorities for its activities, and affixing accountability for tasks. Also, OES should streamline some of its disaster recovery activities which we estimate will generate savings of up to $833,000 per year, savings that can be redirected to other necessary recovery activities.

Furthermore, OES is behind schedule in implementing key initiatives for improving its automated information technology, although progress has been made. Finally, this report also details the specific actions that OES has taken to address the recommendations in our previous Report 95114, dated January 1996.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Enclosure

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# Summary

## Results in Brief

T his report presents the results of the Bureau of State Audits' performance audit of the Office of Emergency Services' (OES) administration of the disaster assistance grant program (disaster assistance program) and the hazard mitigation grant program (hazard mitigation program). The report identifies specific aspects of operations that OES could improve so as to create a more efficient and cost-effective process for managing claims and grant applications submitted by state and local agencies and nonprofit organizations.

OES is responsible for administering the State's emergency management program, which includes preparing for emergencies before they occur, organizing the immediate response to emergencies, and overseeing recovery from disasters after they have occurred. In a Bureau of State Audits report issued in January 1996, we explained that, although OES is very effective in responding to emergencies, OES's ability to coordinate the State's disaster recovery effort had significant shortcomings.

Our current audit reveals that OES does not evenly distribute its management attention and resource commitments to its varied responsibilities, and OES administration of recovery activities related to past disasters often suffers. As a result, OES's recovery efforts are poorly planned, labor intensive, and lacking in automation. Further, when a disaster strikes, OES diverts resources and thus delays disaster claims processing. Moreover, OES's management of the hazard mitigation program is costly and needs simplification.

Specifically, we found the following conditions:

- OES's management needs to more effectively fulfill its responsibility to expedite California's recovery from the effects of past disasters. For example, many of the functions central to its recovery efforts lack adequate planning, standardized procedures for administering recovery activities, and established priorities and responsibilities.

- OES is doing more than necessary to meet its responsibilities in administering the disaster assistance and hazard mitigation programs. For example, OES overburdens its

## Audit Highlights...

*OES does not balance its management attention and resource commitments to its varied responsibilities, and recovery from past disasters is negatively affected.*

*Specifically, we found that OES:*

☑ *Lacks adequate planning for many functions central to its recovery efforts.*

☑ *Could save more than $830,000 and substantially reduce its workload by streamlining or eliminating activities that exceed its administrative responsibilities.*

☑ *Is behind schedule in implementing key initiatives for improving its automated information technology, although progress has been made.*

*Despite its shortcomings, OES should remain the entity responsible for processing claims for disaster assistance and overseeing hazard mitigation grant projects.*

resources by conducting too many final inspections that include reviews of all documents and records, procuring duplicative and unneeded audits, and performing unnecessary activities. If OES adopted a risk-based approach for conducting final inspections, procured only those audits that add value or replace OES efforts, and streamlined its functions by eliminating unnecessary activities, OES could save as much as $833,000 a year and substantially reduce its workload.

- Although it has made progress during the past year in automating its operations, OES is behind schedule in implementing the key initiatives of its 1995 strategic plan for improving its information technology. For example, one of OES's priorities, to create an automated system for handling the large volume of documents generated by the disaster assistance and hazard mitigation programs, is at least 15 months behind schedule, and now OES does not expect to complete the system until 2001. In addition, of the seven short-term information technology projects OES scheduled for completion during calendar year 1996, only two were finished on time, two were late, and three are incomplete.

- Although OES abandoned a system it had originally obtained to automate its management of damage survey reports, OES could complete certain components of the system that would make the disaster assistance program more efficient. However, OES has not yet completed the final modifications to make these components fully operational.

Nonetheless, despite OES's inefficiencies and shortcomings, we believe that OES should remain the state entity responsible for processing claims for disaster assistance funds and for overseeing hazard mitigation grants. OES is an effective advocate for state and local governmental entities that must deal with the Federal Emergency Management Agency (FEMA), and OES's intervention on the entities' behalf has resulted in increased funding for these California applicants. Further, OES's involvement in the review of damage survey reports seems to keep applicants from overusing the appeals process, thereby reducing the number of appeals of FEMA decisions lodged by applicants.

# Recommendations

OES needs to improve its management of the disaster assistance and hazard mitigation programs. In particular, OES should better plan, automate, and streamline its efforts to expedite California's recovery from past disasters. The following recommendations address these concerns.

First, to approach its workload in a more organized way, OES should take the following steps:

- Standardize procedures for accomplishing its key recovery activities;

- Establish clear priorities for its recovery work and then clearly communicate such priorities to appropriate personnel throughout OES; and

- Establish methods for measuring whether it is being effective in accomplishing its disaster assistance and hazard mitigation responsibilities.

Second, to reduce its workload and make the most of its resources, OES should use the following methods to streamline certain recovery activities:

- Take a risk-based approach to final inspections of projects funded by the disaster assistance and hazard mitigation programs;

- Simplify the process OES uses to pay applicants of the disaster assistance program. OES should eliminate unnecessary steps, consolidate separate databases, and modify desk procedures;

- Enhance the hazard mitigation program's Notice of Interest (NOI) form to obtain additional information from potential applicants that will enable OES to quickly screen out ineligible projects or those with too low a priority to receive funding; and

- Follow a risk-based approach in evaluating requests for reimbursement from applicants of the hazard mitigation program rather than reviewing all of the reimbursement requests that it receives.

Third, because OES administers federal programs, FEMA pays about half of OES's operating expenses. Therefore, OES needs to manage more aggressively its process for seeking reimbursements. Specifically, OES should take the following actions:

- Perform a thorough analysis to determine the amounts that FEMA has not yet reimbursed the disaster assistance program from the 15 open disasters for which OES has not yet sought reimbursement;

- Reconcile the reimbursable administrative costs incurred in administering the federal programs to the actual reimbursements OES receives to determine whether OES is fully recovering its costs; and

- Make more frequent drawdowns from the U.S. Treasury to cover OES's statutory administrative costs.

Lastly, OES is behind schedule in completing several of its short-term and long-term information technology projects. OES should continue its efforts to implement these information technology projects, emphasizing those projects, such as several components of the claims and grants processing system as well as the automated time reporting system, that staff is currently pilot testing and will soon have ready for officewide implementation. To facilitate the completion of these information technology projects, OES should first establish work plans that list deadlines for each project, the estimates of the hours necessary to complete each project, and the individual responsible for the project's completion. OES should evaluate its progress in accomplishing each element of the work plans at least monthly.

## Agency Comments

While OES concurs with all our recommendations, it asserts that the report misrepresents the complexity of the disaster recovery process and fails to focus on the central causes of delays and inefficiencies, namely FEMA's role in the recovery process.

OES also believes we inappropriately used its strategic planning timelines in measuring its progress in implementing information technology projects. Finally, OES believes we are mistaken concerning its resource priorities when new disasters strike.

# Introduction

## Background

In 1970, the Office of Emergency Services (OES) was established within the office of the Governor of California to organize the State's preparation for and response to such natural disasters as earthquakes, fires, storms, and floods. OES's primary missions are to coordinate emergency activities to save lives and limit the loss of property during disasters, to expedite the State's recovery from the effects of disasters, and to anticipate and mitigate the effects of future disasters. In each of these activities, OES coordinates its work with local governments, including cities, counties, and special districts; other state departments; private nonprofit entities; and federal agencies, mainly the Federal Emergency Management Agency (FEMA).

OES has headquarters in Sacramento, field offices throughout the State, a regional branch in Oakland that is responsible for operations along the California coast, and a regional branch in the Los Angeles area that oversees OES activities in southern California. The Sacramento headquarters houses various OES offices and branches, including the Disaster Assistance Branch, the northern office for disaster and planning assistance, the Risk Management Section, and the new information technology branch. In addition, OES operates a training center in San Luis Obispo.

OES's budget for fiscal year 1996-97 is about $830 million, consisting of $66 million for state operations and $763 million for local assistance. The federal government pays about $38 million, or 57 percent, of OES's $66 million operating budget through administrative reimbursements.

## OES Coordinates Response Efforts During an Emergency

One of OES's most visible roles is to organize an immediate response once a disaster has escalated beyond the local area's ability to react effectively to the crisis. OES's goal is to control the disaster, save lives and property, and minimize the disaster's effects.

At OES headquarters, the State Warning Center receives notifications of emergencies around the State. The State Operations Center or one of OES's regional emergency operations centers then directs the response to a specific emergency. OES staff coordinate delivery of resources to the affected areas and receive, evaluate, and communicate information about the status of the disaster.

## OES Administers Recovery Efforts During and After an Emergency

Almost as soon as it begins coordinating the State's response to a current emergency, OES also initiates recovery procedures. During recovery from a disaster's effects, OES's primary responsibility is to administer the disaster assistance grant program (disaster assistance program), which provides federal and state moneys to qualified applicants, including the State, local governments, and certain nonprofit organizations. This state disaster assistance program allows for the repair and restoration of public real property, including civic buildings or hospitals, damaged during the disaster. In addition, the disaster assistance program, which does not directly involve FEMA, helps restore necessary services to the citizens of affected areas, and it reimburses affected entities for costs incurred during related response, recovery, and clean-up efforts.

For emergencies that the president has declared federal disasters, the federal government funds, through the Disaster Assistance grant, projects that FEMA and OES have approved. OES, working closely with FEMA, administers the Disaster Assistance grant to assist local governments affected by disasters. The federal reimbursement rate is usually 75 percent of the approved costs, although this rate can increase. The State helps fund the remaining approved costs, and it participates in the process of completing damage survey reports, which are applicants' principal documents for claiming costs; preparing applicants' requests for reimbursement from FEMA; processing applicants' appeals of FEMA's denials of reimbursement; monitoring approved projects; and completing final inspections of disaster assistance projects.

## OES Prepares for and Mitigates the Effects of Future Disasters

To meet its responsibility to prepare for possible disasters, OES performs various essential functions, including administering the hazard mitigation grant program (hazard mitigation program) within California. This program, authorized federally by the Stafford Act and implemented after federally declared disasters, provides funds to the State and to local governments that have identified structures or environments at risk from the kinds of disasters that affect their areas. The goal of the hazard mitigation program is to modify these structures or environmental conditions before another disaster strikes, thus limiting the potential for damage and loss of life. Because requests to the hazard mitigation program exceed the amount of money available, OES assesses and prioritizes the grant proposals it receives and then submits the prioritized requests to FEMA for approval.

## The Responsibilities of OES's Disaster Assistance Branch

OES's Disaster Assistance Branch administers both the disaster assistance program and the hazard mitigation program, which this report discusses in depth. In managing the disaster assistance program, the Disaster Assistance Branch notifies applicants of their eligibility for disaster assistance funds, provides technical assistance to applicants participating in the program, and participates with FEMA in preparing damage survey reports. The Disaster Assistance Branch also regularly monitors the progress of each disaster assistance project during the construction phase and performs a final inspection upon project completion.

In administering the hazard mitigation program, the Disaster Assistance Branch distributes federal funds to local governments, state agencies, and certain nonprofit organizations for the purpose of diminishing or eliminating the risk of future losses from disasters. The Disaster Assistance Branch is also responsible for establishing a state mitigation plan for each type of disaster that occurs in California. As with the disaster assistance program, the Disaster Assistance Branch notifies applicants about the existence of hazard mitigation funds, reviews applications for funding, and provides technical assistance to applicants participating in the program. The Disaster Assistance Branch also monitors the progress of hazard

mitigation projects and performs final inspections to ensure that applicants have completed projects as specified in the grant award.

For fiscal year 1996-97, OES has allotted the branch 563 staff positions, of which 240 are permanent and 323 are limited-term positions.

## *Scope and Methodology*

In the 1996 Budget Act, the Legislature asked that the Bureau of State Audits examine the OES disaster claims processing and hazard mitigation programs. We were to identify specific aspects of those operations that OES could improve so as to result in a more efficient and cost-effective process for resolving claims and grant applications submitted by state and local agencies and certain nonprofit organizations. We were also to assess whether OES, another state agency, or an independent contractor can best perform these functions, or whether claimants should deal directly with FEMA.

To gain a more detailed understanding of how OES administers the disaster assistance program, we developed detailed flowcharts of each activity and subactivity within the disaster assistance program. Our flowcharts grouped OES's administration of the disaster assistance program into seven components: declaration of the disaster, application for disaster assistance funds, preparation and review of damage survey reports, final inspection of projects, payment of disaster assistance claims, preparation of supplemental damage survey reports, and preparation of appeals of FEMA funding decisions. To identify aspects of the disaster assistance program that OES could improve, we investigated in greater depth the following program components: preparation and review of damage survey reports and supplemental damage survey reports, performance of final inspections, preparation of appeals, and payment of disaster assistance claims.

Similarly, we developed detailed flowcharts depicting OES's administration of the hazard mitigation program. Our flowcharts grouped OES's administration of the hazard mitigation program into six components: declaration of the disaster, planning of priorities for hazard mitigation efforts, development of the hazard mitigation application, receipt and review of applications for hazard mitigation funds, preparation of appeals of FEMA funding decisions, and monitoring and final inspection of hazard mitigation projects. To identify aspects of the hazard mitigation program that OES could improve, we investigated in greater depth the following program

components: receipt and review of applications for grant funds and also monitoring and final inspection of hazard mitigation projects.

After focusing our review on OES activities that potentially warranted improvement, we conducted in-depth interviews of OES officials. To assist us in our review of OES, we obtained the services of a consultant from the NewPoint Group who has experience in management audits of specialized government activities, such as information technology. We also reviewed applicable laws and regulations to determine whether federal statute requires the tasks associated with each OES activity. For tasks we determined are not mandated by federal statute, we reviewed memorandums of understanding and policies and procedures to determine whether an agreement between OES and FEMA had established the tasks. If the tasks are not part of such an agreement, we asked whether OES could demonstrate that all of the tasks associated with each activity are cost-beneficial. In other words, the benefits derived from doing a particular task need to outweigh the cost associated with performing a particular task. We also asked about the amount of resources OES devotes to each of the activities and what value, if any, that each task provides to applicants of the programs.

As part of this audit we also performed a follow-up review of OES operations to assess the effectiveness of corrective actions that OES has taken or planned regarding the recommendations from our previous audit. Specifically, we determined the status of OES's actions to automate more of its processes, such as the tracking of damage survey reports and the logging and tracking of correspondence, inquiries, and appeals. We also obtained a status report on OES's efforts to form a new information technology branch, including the creation of an information technology users committee and a steering committee. In addition, we assessed improvements OES has made in its ability to rapidly hire temporary staff both during and immediately after a disaster. During our follow-up, we also determined whether OES has taken steps to improve its cash flow by more regularly requesting reimbursement from FEMA for OES's costs for operating the disaster assistance and hazard mitigation programs. A more complete discussion of the recommendations from the previous audit and the results of our recent review of OES's corrective actions appear in the appendix.

Although most of this audit was performed at OES headquarters in Sacramento and OES's field office in Rancho Cordova, we also familiarized ourselves with certain disaster assistance and hazard mitigation operations of the Southern California disaster field office in Pasadena.

# Chapter 1

## Chapter Summary

Office of Emergency Services' (OES) management needs to more effectively fulfill its responsibility to expedite California's recovery from the effects of disasters. OES does not plan adequately many of the functions central to its recovery efforts. For example, OES management does not always standardize procedures for administering recovery activities, nor does it set priorities and fix responsibility for tasks. Furthermore, we observed several activities in which OES is doing more than necessary to meet its responsibilities. These activities include the final inspection and payment processes in the disaster assistance grant program (disaster assistance program) and the application review, reimbursement, and final inspection processes in the hazard mitigation grant program (hazard mitigation program). Moreover, OES management does not actively seek reimbursements from the Federal Emergency Management Agency (FEMA) concerning reimbursement of OES administrative costs. Finally, OES does not draw down its administrative fees from FEMA as soon as funds are available, and OES does not reconcile payments from FEMA to assure it receives all the federal reimbursements owed OES.

By improving its management of the disaster recovery effort and streamlining some of its activities, we estimate that OES could save up to $833,000 per year. These savings would then be available to use on other necessary recovery activities.

## Some Functions Lack Proper Planning

OES has not prepared an overall strategic plan for its operations. We believe this omission has prevented OES from fulfilling its various missions effectively. Specifically, during our review of the disaster assistance and hazard mitigation programs, we observed several conditions indicating that OES has neglected to plan its activities formally. These conditions include a lack of standardized procedures, an inadequate emphasis on the setting of priorities by management, and a failure to designate responsibility and accountability for tasks.

## OES Has Not Standardized
## Some Procedures

We found that OES uses various procedures to manage different aspects of its disaster assistance recovery function. Unit supervisors developed some of these procedures without guidance from management to ensure that the procedures are consistent with management's views. Further, OES has not standardized parallel functions for the northern and southern regions of the State. For example, an OES applicant service representative in the southern region uses a grantee's damage attachment (attachment) to identify any shortcomings or incompleteness in the related damage survey report prepared by FEMA inspectors. The attachment documents OES's and the applicant's positions on the damage survey reports, which were written in the field, and OES staff enter information from the attachment into the database used in the southern region. In the northern region, OES does not prepare such an attachment. Instead, applicant service representatives fill out letters of nonoccurrence that state how OES and the applicants differ with FEMA's position regarding the scope and cost of damage described in the damage survey reports.

*Some functions are performed differently in the northern and southern regions.*

Disparities in operating procedures and performance of functions between the northern and southern regions adversely affects staff effectiveness. For instance, employees knowledgeable in the operating procedures and functional requirements for performing a specific job in one region would not be as effective in the other region without additional training.

## OES Management Does Not Always
## Set Priorities for Recovery Activities

A second indication that management has not sufficiently planned for OES activities is the absence of clear priorities and deadlines. We observed that management gave staff various tasks to perform; however, because management provided little direction or support regarding these tasks, staff had no way to gauge their importance. For example, management assigned the information technology liaison for OES's Disaster Assistance Branch to be the project leader for a business needs assessment for her branch. However, according to the liaison, she did not receive specific guidance or a timetable for completing this task; instead, because of a shortage in payment staff, she spent most of her time coordinating the applicant payments process. The

business needs assessment is not yet complete, and critical information necessary for OES's decisions on whether to automate specific activities is not available.

Another example of OES's failure to set definite priorities appears in OES's work plan for the Disaster Assistance Branch. The work plan for fiscal year 1996-97 designates various objectives relating to the disaster assistance and the hazard mitigation programs that the Disaster Assistance Branch is to complete during the year. Although the plan design gives each objective a column for the start and end dates, estimated hours to complete, staff responsible, and the objective's priority and status, only a few of the objectives for the disaster assistance program have a stated priority. Moreover, the work plan designates each objective for the hazard mitigation program as a top priority, a strategy that is unrealistic given the number of objectives planned for the mitigation program for fiscal year 1996-97.

Furthermore, the OES work plan rarely assigns objectives in the disaster assistance and hazard mitigation programs to specific individuals. Instead, the number of hours associated with objectives that take many thousands of hours appear under the names of one or a few managers.

*When a disaster strikes, OES disrupts day-to-day operations by reassigning staff, thus causing undesirable consequences such as delayed claims payments.*

When OES fails to set priorities, makes objectives and priorities unrealistic, or does not clearly identify the staff expected to complete its planned objectives, OES significantly reduces the likelihood that staff will complete the projects as management intends.

Also, we are concerned about the priority OES gives the recovery function and the disruption that occurs in OES's day-to-day work, such as the processing of claims for disaster assistance, in the event of an immediate disaster. Historically, OES's giving the recovery function a lower priority than response efforts has had undesirable consequences. For example, whenever a major disaster, such as the Northridge earthquake, has struck California, OES has reassigned the response effort for the new disaster to the staff normally responsible for processing disaster claims for payment. As a result, OES suspends temporarily the processing of existing claims, thus delaying payments to applicants from earlier disasters.

Finally, management has not provided staff in the Disaster Assistance Branch with sufficient guidance for gathering information. Therefore, supervisors for various functions have developed freestanding databases that help them manage their respective areas of responsibility. However, the supervisors

cannot unify onto one database the information contained on these independent databases because the databases do not have a standard design. Furthermore, information a supervisor collects for one function is not available to supervisors in other functions, and staff frequently duplicate efforts or enter the same information multiple times.

### OES Does Not Clearly Define Its Staff's Responsibilities

In addition to a lack of standardized procedures and priorities, an absence of established methods for performance measurement and of requirements for individual accountability has weakened OES disaster assistance efforts. Specifically, OES has not established performance standards for its Disaster Assistance Branch. In addition, because of OES's inability to track management information readily, OES managers and supervisors have little data to gauge staff effectiveness.

The absence of performance measures underscores the need for OES to develop a strategic plan that addresses all of its missions. Such a plan should contain key elements, including a requirement that management plan ways to fulfill its recovery mission, which, according to the Governor's Budget, is to expedite the State's recovery from the effects of disasters after they have occurred. OES needs to define its goals and objectives and to establish action plans and time lines. In addition, OES should develop standards for performance and a method to measure its results periodically against those performance standards to determine how effective OES is in fulfilling its mission. For instance, two goals relating to the recovery mission could be the following: (1) for OES to maximize the amount of eligible damage costs identified and to which the applicant is legally entitled, and (2) for OES to ensure that it pays each applicant as quickly as possible. OES could then formulate and rank the objectives and activities necessary for reaching these goals. The performance standards that OES selects should be measurable and controllable, and they should link the overall strategic plan with OES operations.

*Because it has not established goals and objectives for the recovery effort, staff lack direction and plans for action.*

In our January 1996 report, we noted that OES had not developed a strategic plan for its operations. At that time, OES told us that although it had attempted to organize strategic planning meetings, repeated disasters caused OES to cancel the meetings. However, a year later, OES still has not begun any strategic planning efforts for its operations.

## OES Does More Than Necessary
## To Meet Its Responsibilities
## for Some Programs

During our review of OES's administration of the disaster assistance and hazard mitigation grant programs, we noted areas in which OES could streamline its existing methods or activities and still meet its responsibilities as grantee of these programs. For example, OES currently conducts more final inspections than necessary for either grant program. Further, it has a poorly designed process for paying disaster assistance program applicants and performs unnecessary activities that delay payments. Finally, opportunities exist for OES to simplify the application review and reimbursement processes in its hazard mitigation program.

When OES conducts activities that are not needed to meet its responsibilities as grantee, it incurs unnecessary costs, increases its workload, and extends the time it takes to pay applicants for damage claims or to approve hazard mitigation grant projects and reimburse applicants for their costs. Even if OES were simply to modify its final inspection process for its disaster assistance and hazard mitigation projects so that the process is risk-based, we estimate that OES could save as much as $181,900 annually and reduce its processing time by over 6,000 hours.

## OES Conducts Too Many
## Final Inspections of Both Small and
## Large Disaster Assistance Projects

For the disaster assistance program, FEMA has differing requirements and methods of payment that depend on the cost of each project. According to FEMA, projects are site specific. In other words, all disaster survey reports relating to one site constitute one project. For example, an applicant could be a hospital that sustained damage to several different buildings located at one site. The damages could be in various categories designated by FEMA as requiring separate damage survey reports, but because the damage survey reports relate to one site, FEMA would consider them a single project.

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## *Final Inspections of Small Projects*

FEMA considers disaster assistance projects with eligible costs less than a specified amount (currently $43,600) as small, and FEMA pays its share of all costs associated with such projects. Further, if it turns out that an applicant actually paid less for the project than the amount FEMA approved, FEMA usually does not require reimbursement of the amount in excess of cost, as long as the project was completed. FEMA considers large those projects with eligible costs greater than the specific threshold for small projects, and it pays applicants periodically on a reimbursement basis as work progresses.

For small projects, Title 44 of the Code of Federal Regulations, Section 206.205(a), requires OES to certify that projects have been completed according to FEMA approvals and that the State has paid the applicants its portion of the costs.

To meet these responsibilities, the OES Public Assistance Procedures Reference Manual requires that an applicant service representative (representative) conduct site visits and prepare final inspection reports for all projects, regardless of size, to reconcile the applicant's actual expenditures with the eligible scope of the project. During the site visit, the designated representative conducts a review of all the damage survey reports, including such supporting documentation for the project as invoices, payroll records, contracts, bids, building permits, and drawings to verify that all costs relate to the approved scope of work and are eligible for payment, and to determine if the applicant completed all the work for which the applicant is requesting payment. Once the review is complete, the representative prepares a final inspection report. This report consists of a narrative overview of the disaster and the types of damages sustained, and it includes a description of each damage survey report for the project. The final inspection report also describes any changes in the original scope of work or in the estimated costs contained in the damage survey report, and it provides justification for those changes. For each damage survey report, the final inspection report also reconciles the FEMA approved amounts to the amounts claimed and to the amounts found eligible during the final inspection.

*Even though FEMA does not require site inspections, nor the return of misspent funds, OES conducts a full review of all costs and prepares a final inspection report.*

Because FEMA does not require site inspections or dictate a form for the certification for small projects, we question the need to complete site reviews and detailed final inspection reports for these projects. OES conducts site reviews and prepares final inspection reports for all small projects because it has interpreted federal and state law as requiring OES to do so. The final inspection coordinator told us that, whenever possible, representatives write final inspection reports without performing

a site inspection. Instead, representatives complete a desk review that includes analyzing the applicant's files and any additional related documentation the applicant mails or faxes to OES. Nonetheless, representatives prepare final inspection reports even for small projects for which actual costs did not significantly exceed estimated costs for the project. Additionally, according to OES's final inspection coordinator, even when the projects are for state-declared disasters that have no federal involvement, OES always accounts for all costs, regardless of the project's size.

To streamline the process for small projects, OES recently reiterated its policy regarding final inspections. In a memorandum dated August 15, 1996, the final inspection coordinator for the northern region revised the procedures for small projects related to the Loma Prieta earthquake. The memorandum requires that representatives adhere to the following rules when reviewing small projects:

- If the project amount is less than $10,000 and actual costs claimed do not exceed those estimated for the project, no documentation of costs will be necessary except for the applicant's certification that all work was completed. These are considered desk review finals and can be completed by phone.

- If the project amount is over $10,000 and actual costs claimed do not exceed those estimated for the project, a minimum amount of documentation will be needed to support the State's portion of the cost and can be completed by phone or fax.

- If the applicant claims actual costs that exceed those estimated, resulting in a cost overrun, documentation to substantiate the entire project may be needed. Only documentation not already in the applicant's file needs to be requested.

- If the applicant claims a significant addition to the original scope of work, a supplemental damage survey report may need to be written and approved by FEMA before completing the final inspection report.

The memorandum closes by stating that representatives should apply the above rules when they work on any final inspection report, regardless of the disaster, as long as the report involves small projects only. The memorandum also notes that these rules are not new and that OES is only reiterating them to

*In August of 1996, OES reiterated its policy on streamlining small project final inspections.*

achieve consistency and speed in completing final inspection reports for the small projects relating to the Loma Prieta earthquake.

However, we randomly selected five final inspection reports for small projects related to federally declared disasters and found that OES inspectors are still doing more than is required to complete final inspections. We tested by reviewing the final inspection reports, three from the northern region and two from the southern region, and interviewing the representatives who prepared them. We found that in four of five reports the representative stated that he or she had verified all costs, even though only one of the five contained what could be considered a significant cost overrun. This overrun amounted to approximately 9 percent above estimated cost. Furthermore, when we interviewed the representatives who prepared the reports, all five stated that they always conduct site visits to verify work completion, regardless of the project's size.

In order to measure the costs associated with OES doing more on final inspections than we believe necessary, we calculated the number of final inspections OES recently performed on small projects. We relied on reports provided by FEMA's database, the automated disaster assistance management system, for the last 13 federally declared disasters. These reports showed the status of final inspection reports, all related to these 13 disasters that OES had submitted to FEMA as of November 12, 1996, the date OES generated the reports from the FEMA database. We used FEMA's database because OES does not track the number of small project versus large project final inspections completed as of a specific date.

According to FEMA's data for the 13 disasters, OES completed final inspection reports on 395 small projects, an amount representing 56 percent of all OES final inspection reports. We also determined that 147 (59 percent) of the 248 final inspection reports completed during the first 11 months of calendar year 1996 related to small projects. We calculated that OES spent approximately $159,264 and took more than 5,500 hours to conduct these final inspections and prepare reports on small projects. This dollar amount represents a significant 24 percent of $666,700, which was the total OES cost we estimated for all final inspection activities for those same 11 months.

We believe OES should take a risk-based approach to conducting the final inspection process for small projects in the disaster assistance program. This approach would rely on the applicant's certification that all costs for the small project are eligible and within the scope of work approved by FEMA and

other similar controls. Such controls include the independent audits of disaster assistance grant funds required by the Single Audit Act of 1996.

Applicants eligible to participate in the disaster assistance program include state and local governments and certain private nonprofit organizations. Beginning with fiscal year 1996-97, all such entities receiving $300,000 or more a year in federal funds must have a single audit that includes an audit of the entity's financial statements and additional testing of the entity's federal assistance programs. For fiscal years prior to 1996-97, entities receiving $100,000 or more a year in federal funds needed to have a single audit. The auditors conducting the single audits must test the entity's internal controls and compliance with the laws and regulations for those federal programs meeting a minimum dollar threshold. Therefore, many applicants receiving disaster assistance funds for small projects may have had single audits that OES could use to assess the risk that applicants are eligible and are spending funds properly.

### Final Inspections of Large Projects

As in the case of small projects in the disaster assistance program, OES spends more time and effort than necessary completing the final inspection process for large projects. However, unlike small projects, large projects receive close monitoring by OES, which requires applicants to report quarterly throughout the projects' duration on whether the projects are on schedule or encountering any difficulties. In addition to applicants' quarterly updates, OES completes a comprehensive review of all documentation during the final inspection process.

*We believe OES misinterpreted federal requirements and is doing more than is necessary.*

Title 44 of the Code of Federal Regulations, Section 206.205(b), requires that OES make an accounting to FEMA of the eligible costs for each approved large project. OES is also to certify that the reported costs were incurred in the performance of eligible work, that approved work was completed, that the project complied with the agreement between FEMA and OES, and that payments for the project have been made according to the payment provisions in the Code of Federal Regulations.

We believe that OES has misinterpreted these federal requirements and is doing more than necessary. Specifically, OES is not relying on other controls that provide assurance that applicants complete projects properly and incur costs only for eligible work. First, applicants must certify to OES that costs incurred on their projects are for eligible work only. Further, as we discussed previously, the federal Single Audit Act of 1996

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requires applicants receiving federal funding in excess of the specified audit threshold to undergo independent audits.

Despite the existence of these controls, when any large project in the disaster assistance program nears completion, OES's representatives conduct site visits and prepare final inspection reports. During the site visit, the representative reviews all supporting documentation, including invoices, payroll records, contracts, bids, building permits, drawings, and proof of insurance. The representative verifies that all costs relate to the approved scope of work and are eligible for payment, and he or she determines whether the applicant completed all the work for which it is requesting payment. Once the review is complete, the representative prepares a final inspection report.

*We strongly question the need for OES's 100 percent review of all large project documentation.*

We strongly question the need for the level of detailed review used by OES for final inspections of large projects. As with small projects, OES should take a risk-based approach to the process. Using methods similar to those employed by auditors, representatives should apply sampling techniques, analytical reviews, and other risk-based approaches during site inspections. Further, some of the less complex or lower-value projects may only warrant a desk review of selected line items or transactions.

In addition, for its disaster assistance program, OES has an interagency agreement with the State Controller's Office (SCO) to perform a specified number of audits and surveys of program applicants. The scope of the audits is to determine whether costs incurred by applicants are eligible according to federal and state regulations and policies. The surveys are designed to help the SCO determine whether an applicant has implemented internal control procedures to ensure the eligibility of disaster-related costs. The SCO conducts these audits after OES completes its final inspection of all documentation and accounting records for the projects. According to OES's audit coordinator, staff at OES review any audit findings reported by the SCO and forward them to FEMA. She also stated that, for findings resulting from the SCO's surveys, an OES representative follows up with the applicant.

Nevertheless, we believe that audits conducted by the SCO after OES's final inspections are duplicative and provide no added value. In fact, OES has already submitted final and approved inspection reports to FEMA before OES receives SCO audit reports. By reducing the level of effort it commits to final inspections and by eliminating costs for duplicative audits, OES can redirect some of its staff and resources to other recovery work. If, because of scarce resources, OES chooses to continue its agreement with the SCO, it should modify the scope of work

such that the SCO performs final inspection work in lieu of, not in addition to, the work conducted by OES staff.

### OES Also Conducts Too Many Inspections of Hazard Mitigation Projects

Besides conducting unnecessary final inspections of disaster assistance projects, OES performs final inspections and issues reports on completed hazard mitigation projects that involve over $100,000 in federal funds and also entail construction even though federal regulations do not require OES to do so. According to OES management, it performs these activities because FEMA requests that OES join FEMA in conducting final inspections of all completed projects over $100,000 to ensure that applicants have completed projects as specified in the grant awards. However, other existing controls could provide such assurance.

*OES should use a risk-based approach in its project inspections to save time and money.*

We believe that OES should take a risk-based approach to performing final inspections of its hazard mitigation projects. As with recipients of disaster assistance grant funds, recipients of hazard mitigation grant funds are subject to audit in accordance with the federal Single Audit Act. For OES's hazard mitigation program, we recognize that, under certain circumstances, OES may still want to perform a final inspection of some of its larger hazard mitigation projects. However, OES should rely more often upon the single audits required of applicants that participate in federal assistance programs.

According to OES estimates, its staff needs approximately eight hours to perform a final inspection of each hazard mitigation project. We estimate that the hours necessary to perform final inspections for fiscal year 1996-97 will cost approximately $45,300. However, we believe that OES could reduce the amount of time it spends on final inspections by 10 to 50 percent by adopting a risk-based approach targeting for final inspection only those applicants for which problems are most likely to occur. In this way, OES could save an estimated $4,526 to $22,632 a year.

### The OES Payment Process for Disaster Assistance Causes Avoidable Delays

By eliminating unnecessary activities while improving its computer capabilities, we estimate that OES could reduce by up to three months the time it now takes to pay applicants in the

disaster assistance program. Further, it could also reduce by at least six the number of full-time-equivalent employees used for the payment process, thus saving OES more than $200,000. To realize these savings, OES would need to complete work on its automated ledger system, convert to a computerized database the existing data now maintained on various spreadsheets and manual ledgers, and provide fiscal staff with the required hardware and training to use the automated system.

Federal regulations require the State to disburse federal funds to applicants that sustained damage or incurred costs due to a federally declared disaster. Regulations state that OES, as the grantee, is to make payment as soon as is practical after it receives notification of federal approval of funding.

For large projects in the disaster assistance program, OES pays for actual expenditures incurred by applicants and it uses a form on which the applicants self-certify that they spent the money on repairs in accordance with regulations and the approved scope of work listed on the damage survey reports. OES releases a percentage of the federal cost share to each applicant and retains the balance until OES completes the final inspection of the large project. For small projects, OES's process for making payments for repairs and for paying applicants for their administrative costs is less cumbersome than the process OES uses for large projects.

*By using FEMA's database, OES could speed payments by up to three months.*

However, OES's current process for paying applicants for both large and small projects causes avoidable delays. These delays occur under the current process because OES waits for a hard-copy notification or "supplement letter" from FEMA before initiating a series of steps to pay the applicant. According to OES, however, the FEMA supplement letter can take up to three months to reach OES after FEMA actually approves the payment. In other words, OES currently does not begin processing a payment for up to several weeks or months after FEMA actually approves payment for the damage survey report, a practice that causes a delay in payment to the applicant. For example, during our previous audit, we noted that FEMA had accumulated and then shipped to OES 12 storage boxes of supplement letters approving payments to applicants. During a cursory review of several of these documents, we found supplement letters dated up to six weeks before OES received the shipment.

FEMA uses an automated disaster assistance management system (ADAMS) to record and track damage survey reports and FEMA's approvals of payments. FEMA first records on ADAMS any approval to pay a damage survey report and then creates and sends to OES the supplement letter. Because OES has

access to and uses ADAMS, we believe that OES could avoid delays in processing payments by using ADAMS to learn whether FEMA has approved payment to an applicant. At that point, OES could begin the payment process and would not need to wait for up to three months to receive the supplement letter.

## *OES Needs Additional Improvements in Its Process for Paying Applicants*

*An OES team we assembled identified:*

✔ *19 unnecessary payment steps;*

✔ *6 separate databases that need to be consolidated; and*

✔ *Opportunities to streamline desk procedures for three activities.*

OES has not yet implemented throughout its organization an effective automated information system for the disaster assistance program, although it has twice attempted to do so. (See Chapter 2 of this report for a discussion of OES's efforts to automate its operations.) The absence of such a system has hindered OES's prompt payment of applicants and its timely response to external requests for information. Without a computerized claims and grants processing system, OES management cannot easily extract accurate, reliable, or consistent information about the cost of a disaster or payments to an applicant. Instead, OES must rely on FEMA's information system to determine payment histories. Further, OES staff must maintain noncompatible computer spreadsheets and duplicate logs in order to track payments, manage individual applicants, and evaluate disaster costs.

During this audit, we assembled a team of management and staff from the OES fiscal unit to discuss ways to improve OES's payment process. The group included individuals responsible for paying qualified applicants for federally declared disasters and for those declared by the State only. Our purpose was to assist the group in identifying objectives for the payment process and in improving the current process, from the receipt of a FEMA approval through the mailing of a check to the applicant.

As a result of these discussions, the group identified 19 unnecessary steps in the payment process, six separate databases that can be consolidated, and opportunities to streamline the desk procedures for three activities, one of which involves the procedures staff follow in responding to external requests for information on payments. The group's findings demonstrate that OES has multiple areas in which it can improve its process for paying claims. The group noted, for example, that OES management requires payment staff to perform some tasks more than once, such as reviewing final inspection reports and recording the names, addresses, and damage survey report numbers for the same applicant in multiple spreadsheets and manual logs. As a result, OES delays payments to applicants unnecessarily, diverts staff from activities

that produce the applicant payment, and uses more staff time than necessary to process approvals. Reducing unnecessary work is critical, especially because OES reduced the number of full-time staff handling payments from 20 during fiscal year 1994-95 to 12.5 in fiscal year 1996-97, while the workload has remained the same.

Furthermore, OES has no single point of contact for an applicant to call with inquiries and no automated system that allows OES to respond quickly to simple inquiries. Staff members often take phone inquiries, hang up, find the appropriate manual files, research the request, and then return the applicant's call. This practice increases the time OES staff needs to answer applicant questions and sometimes results in inconsistent answers regarding the status of payments.

Delays in the payment process also exist because of inadequacies in the database containing the files on applicants involved in disasters declared by the State only. Specifically, the database has outgrown the capacity of the dBase III software used by OES, requiring National Disaster Assistance Act (NDAA) program staff to split the database across three separate personal computers. A user must know on which personal computer an applicant file is stored before he or she makes an inquiry of the database. OES management has not upgraded this ineffective personal computer database used by NDAA program staff since approximately 1986.

Another factor in payment delays is the design of OES's process for reviewing payments. Staff passes between desks the package of documents necessary to pay an applicant, and each staff member performs a narrow function on the package. This movement from desk to desk can potentially create delays because the package may sit idle in "in boxes" waiting for staff to retrieve and process it. This waiting time adds to the time OES takes to pay an applicant.

To illustrate the potential length of this waiting time, we obtained some statistics from OES for fiscal year 1994-95. During that year, OES estimates it employed approximately 20 full-time-equivalent employees to handle federal and state payments, and it processed approximately 3,000 payments. If we assume each full-time-equivalent employee worked 1,800 hours per year, OES spent approximately 12 hours to process each payment. In comparing these 12 hours with the several weeks or months now required to process a payment, we have some indication of how long an approved payment waits between steps in the process. Some of this time includes the employees' waiting for the applicant to submit the self-certification form and other required documentation as well

as their waiting for decisions by the OES audit unit on the completeness of the approval package. Nevertheless, the significant differences between processing and calendar times suggest that the payment process needs improvement.

Moreover, OES does not always clearly tell the applicant which damage survey reports a payment is for, and this omission results in additional inquiries from applicants. Each check written to an applicant has a space for explanatory text from OES. If this space were to indicate the damage survey report to which the payment applies, then fewer applicants would need to call OES for this information.

*Improving the payment process could save more than $200,000 annually.*

Using our findings and recommendations from the discussion group drawn from the OES fiscal unit, we provided OES with documentation for an improved process for paying applicants, including a flowchart of the new process and a list of tasks for OES to reduce or eliminate. OES then prepared labor estimates for the activities that we proposed it reduce or eliminate. If OES were to improve its payment process and provide an automated ledger system, the potential cost savings resulting from these focused improvements could amount to more than $200,000 of the approximate $450,000 annual budget for the fiscal personnel who process applicant payments. In addition to the potential resource savings, the time required for OES to pay an applicant could decrease by at least three days and perhaps by up to three months.

Moreover, the investment of time by OES fiscal staff in the process improvement meetings was small relative to the potential benefits, and the meetings could serve as a model for OES to use in the future as it continues to improve the efficiency and effectiveness of its processes. We are not aware of any similar OES efforts to improve its business processes.

### The Application Review Process for Hazard Mitigation Projects Is Costly and Needs Simplification

An important part of recovering from a disaster is to identify the types of damages sustained and to determine what steps can help minimize or avoid similar types of damages in the future should the same type of disaster reoccur. These steps could include modifying the facilities or the environments located within the geographic area where the disaster struck. The hazard mitigation program administered by OES's Disaster Assistance Branch provides funds for these purposes.

The application and review process for hazard mitigation projects is arduous and costly. For example, OES's hazard mitigation staff provide technical assistance to potential applicants in developing their projects and filling out the application packages. Each application package processed by OES receives four separate reviews, each relating to a different concern. Once the hazard mitigation staff completes the reviews, the staff prepares a technical review report for each project that summarizes the issues noted during the four separate reviews. The staff also decides whether a site visit is necessary by assessing such factors as the project's scope, whether environmental issues are involved, and whether the project involves multiple jurisdictions.

*Approving grants is arduous and overly burdensome.*

After any needed site visits, the hazard mitigation staff finalizes project applications. Activities needed to finalize a project include contacting the applicant to discuss and resolve any findings that resulted from review of the application, requesting additional information, and conducting additional site reviews. OES also interviews project applicants to determine if their projects relate to the repair of damage caused by a disaster. If OES makes such a determination, OES advises the applicant that the disaster assistance program would be a more appropriate source of funding for such repairs.

Based on information included in OES's most recent budget change proposal, we calculate that during fiscal year 1996-97 OES will spend approximately 100,450 hours to process approximately 1,580 hazard mitigation applications, at a cost of more than $2.97 million.

Before submitting an application for funds from the hazard mitigation program, potential applicants must submit a notice of interest (NOI). The NOI, supplied by OES, informs potential applicants about the priorities OES has established for mitigation projects relating to a given post-disaster location. On the NOI, potential applicants must provide descriptions of mitigation projects, estimated costs, and the applicants' sources of match funding. The NOI provides valuable information to hazard mitigation staff, such as the potential applicants' level of interest, the amount of grant funding sought, and the types of hazard mitigation projects proposed.

The NOIs can also offer a means for OES to screen potential applicants' eligibility for the hazard mitigation program. Although OES had recently made some changes to its NOI form, unfortunately, it does not always take full advantage of its NOI process to screen out pending applications that later turn out to be ineligible or that would have too low a priority to fund. On the occasions when OES has used the NOIs as screening devices, they have proved effective. For instance, for applications relating to the 1995 winter storm disasters, OES used the NOIs to screen out ineligible projects or those having too low a priority for funding. OES was thus able to reduce the applications it had to review from 2,266 to 592, a 74 percent reduction. According to OES, it often screened out applications simply because the applicants, many of whom were private nonprofit organizations, were not eligible organizations. For the Northridge earthquake, however, OES did not use NOIs to screen applications because it believed that all eligible applications would qualify for funding due to the size of the disaster and the related high level of funding. However, using the NOI to screen applicants would have helped OES because the aggregate value of the applications it ultimately received exceeded available funding by approximately $1 billion.

Furthermore, if OES made additional enhancements to its existing NOI forms requiring a few additional pieces of information, we believe the forms could provide an even better screening mechanism for the hazard mitigation program. For example, OES would benefit from requiring potential applicants to provide, along with their NOIs, evidence that they are aware of or have met environmental and historic requirements for their projects. Similarly, OES could better screen applications if it required applicants to provide copies of their local hazard mitigation plans and explanations of how their projects relate to those plans and the priorities set by the hazard mitigation program. OES could also ask applicants to show that they have jurisdiction over their project sites. The absence of such factors sometimes causes OES to find an applicant's project ineligible for the hazard mitigation program. By using this additional information to evaluate applicants before they submit their complete application packages, OES staff would not spend time reviewing applications only to find them ineligible later in the process.

Because OES does not always track the information described above, we were not able to determine how many applicants OES found ineligible as a result of reviewing the NOI information currently submitted for projects relating to other disasters. In addition, we could not tell if OES could consistently achieve as significant a reduction in applications

requiring review as it did with applications related to the 1995 winter storms. However, according to fiscal year 1996-97 data, even if an enhanced NOI screening process resulted in a mere 5 percent reduction in the number of eligible applications passing through the review process, OES could save an estimated $148,600. A 10 percent reduction would save $297,200.

### OES Does Too Much To Process Reimbursement Requests for Hazard Mitigation Projects

*OES should rely more on existing controls rather than perform a detailed review on all reimbursement requests.*

We believe OES is doing more than is necessary in its review of reimbursement requests received from the local governments and nonprofit organizations, or subgrantees, participating in the hazard mitigation program. OES currently reviews in detail all requests for reimbursements and related supporting documentation. However, other existing controls should give OES assurance that these reimbursement requests are sufficiently justified. For example, in submitting requests for reimbursement, the subgrantee certifies that its outlays are in accordance with the conditions of the grant and do not involve costs that have already been reimbursed. Also, OES monitors the progress of these projects on a quarterly basis to ensure they are not over budget and are progressing according to schedule. Finally, OES requires the subgrantee to maintain copies of all financial records related to the project and to make the records available for review by OES. With these controls already in place, OES can reduce the amount of time it now spends reviewing reimbursement requests by performing a detailed review for only a sample of the requests rather than reviewing in detail all of the reimbursement requests it receives.

Federal regulations assign OES primary responsibility for project management and fund accountability. In addition, OES must make a claim to FEMA for reimbursement of allowable costs for each project. Federal regulations further provide that OES certify that reported costs were incurred in the performance of eligible work, that approved work was completed, and that the hazard mitigation project complies with agreed-upon conditions. Furthermore, FEMA determines the eligible amount of reimbursement for each claim and approves the payment. However, according to OES staff, FEMA delegated this responsibility to OES, and FEMA no longer reviews and approves reimbursements.

Federal regulations also require OES to include within its administrative plan established procedures for processing requests for reimbursements. To meet this requirement, the OES administrative plan states that both the program manager and the branch manager will review requests for hazard mitigation reimbursement before approving or denying payments.

Some of the activities performed by OES in processing reimbursement requests are inefficient. Specifically, OES's detailed review of the supporting documentation for all reimbursements is not necessary because the local governments or nonprofit organizations already certify the information.

According to OES estimates, its staff takes approximately 12 hours per reimbursement request to review the documentation, determine if the hazard mitigation project conforms to approved conditions, and decide whether OES should pay the reimbursement. We estimate that the hours necessary to perform the tasks involved in reviewing the reimbursement requests for fiscal year 1996-97 will cost $178,404. We further estimate that if it eliminated unnecessary tasks, OES could reduce by 10 to 50 percent the 12 hours expended to perform these tasks. According to these projections, the resulting savings would range from $17,840 to $89,202 for fiscal year 1996-97.

## More Rigorous Procedures Would Ensure That FEMA Fully Reimburses OES for Costs

OES needs to be more rigorous in its procedures to obtain reimbursement of the costs it incurs in administering federal programs. OES has not aggressively sought reimbursement of its direct costs from FEMA for 15 open disasters.

FEMA reimburses OES in three different ways for OES's activities in administering the disaster assistance and the hazard mitigation programs. First, OES can receive reimbursements of up to 75 percent of OES's state management costs, which are direct costs of administration. Federal regulations state that allowable management costs encompass the following:

- Cost of state personnel (regular time only) assigned to administer the programs;

- Disaster field office administrative costs; and

- Regular-time salary costs for the continued management of the grants once a disaster field office closes.

Second, using a sliding scale, FEMA reimburses OES for other statutory administrative costs. These other extraordinary costs include overtime incurred and travel and per diem expenses for state employees conducting such activities as the following:

- Preparing hazard mitigation applications and damage survey reports;

- Preparing quarterly reports; and

- Conducting final audits and field inspections.

For the disaster assistance program, FEMA applies the sliding scale described below against the total amount of federal assistance provided to subrecipients under several different public assistance grant programs within the State. For the hazard mitigation program, FEMA applies the same sliding scale against the total amount of federal assistance provided within the State to subrecipients that have received hazard mitigation assistance. Thus, FEMA reimburses OES in this way:

- Three percent of the first $100,000 of federal assistance received by subrecipients;

- Two percent of the next $900,000 of federal assistance received by subrecipients;

- One percent of the next $4 million of federal assistance received by subrecipients; and

- One-half of one percent of any amount in excess of $5 million.

Finally, OES is eligible to receive reimbursement of its indirect costs based on an indirect cost rate proposal it submits to FEMA. OES calculates its proposal using program amounts and distributed administration costs in the annual Governor's Budget and the Statewide Cost Allocation Plan determined by the Department of Finance.

Currently, OES submits quarterly requests to FEMA for reimbursement of its state management costs for the hazard mitigation grant program and for 3 of 18 open disasters in the

disaster assistance program. In the section below, we discuss the 15 open disasters for which OES is not submitting requests for reimbursements of its state management costs.

### OES Needs To Manage Its Federal Reimbursements More Effectively

One of the problems that has plagued OES in the past has been its inability to readily determine all its reimbursable costs and to promptly request reimbursement from FEMA. OES stated that because it did not track its state management costs in the past, it could not determine what costs it had incurred and therefore could not request reimbursement. As a result, OES has incurred costs for which it has neither requested nor received reimbursement. Moreover, in a joint OES–FEMA meeting held in August 1995, FEMA determined that OES cannot submit retroactive requests for state management costs incurred before July 1995 for administering the hazard mitigation program. For most of these earlier disasters, FEMA advanced funds to cover OES's estimate of its state management costs, however, because it did not track its actual costs, OES cannot determine whether these advances matched its actual costs. Consequently, OES may have incurred eligible costs for which it will never be reimbursed.

*OES has not requested federal reimbursement of its management costs for 15 of the 18 open disasters.*

Although OES may not receive reimbursement for some of its hazard mitigation state management costs, its stated goal is to bring up to date by the end of the 1996-97 fiscal year, all past reimbursement requests for the disaster assistance program. OES has stated that it will need to hire additional permanent or limited-term personnel to accomplish this goal. OES will then need to increase the existing level of permanent staff to remain current on its reimbursement requests for all open disasters. However, because OES has not tracked its past state management costs, we feel that OES will probably be unable to create adequate support and calculate the costs it incurred for the 15 earlier disasters. Therefore, OES will not be able to collect all the outstanding reimbursements for the disaster assistance program.

State management costs are substantial. For example, the state management costs that OES was advanced or requested for the disaster assistance program during fiscal year 1995-96 totaled more than $26 million. Furthermore, these requested reimbursements represent costs for only 3 of the 18 open disasters.

## OES Needs To Reconcile Its Statutory Administrative Costs With Federal Reimbursements

OES does not reconcile the statutory administrative costs it incurs against the amount FEMA reimburses according to FEMA's sliding scale. Federal regulations specify the statutory administrative costs allowable for reimbursement. These costs include the overtime, travel, and per diem expenses incurred by state employees who prepare applications, damage survey reports, and quarterly reports and who conduct audits and final inspections.

One benefit of reconciling statutory administrative costs is that it would enable OES to determine if sliding scale reimbursements recover its costs. If OES conducted such an analysis and found that FEMA was not fully reimbursing OES for its costs, OES could then take appropriate actions to reduce these activities to more closely approximate the level of reimbursements.

*OES does not draw its available federal administrative allowances until state funds are exhausted.*

Also, OES has been inconsistent in regularly drawing funds from the United States Treasury. In order to receive reimbursements from FEMA, OES must "draw down" the funds from the federal account and place them into its own account. We found OES has not regularly drawn down federal funds to reimburse statutory administrative costs. Currently, OES does not draw down the available federal statutory administrative fee allowance until available state funds are exhausted. For example, during fiscal year 1995-96, OES did not make the first federal draw until October 25, 1995, almost four months into the fiscal year. However, federal funds were available before that date as follows:

- $38,324 on July 31, 1995;

- $386,056 on August 31, 1995; and

- $4,855 on September 30, 1995.

# Chapter 2

## OES Has Shown Limited Progress in Meeting Its Information Technology Needs

### Chapter Summary

Although it has made progress during the past year in automating its operations, the Office of Emergency Services (OES) is behind schedule in implementing the key initiatives of its 1995 plan for improving its information technology. For example, one of OES's priorities, to create an automated system for handling the large volume of documents generated by the disaster assistance grant program (disaster assistance program) and hazard mitigation grant program (hazard mitigation program), has been delayed. Not having such a system hinders OES's ability to pay claims promptly. This condition also limits OES's capability to provide available information about the status of individual claims or to readily summarize the costs associated with each disaster.

One information technology success that OES has recently experienced concerns its top-priority project, the Response Information Management System (RIMS). OES has developed, piloted, and partially deployed RIMS, an automated system for receiving and responding to requests for resources during the immediate response to a disaster. Since September 1995, OES has relied on RIMS to track deployment of resources during a disaster.

However, OES's success in implementing other information technology projects has been limited. OES is behind schedule on many needed projects, such as creation of an information technology branch, establishment of a system to track reimbursement of costs, implementation of an employee time-reporting system, and development of a claims and grants processing system. Contributing to these delays is the fact that OES managers do not always use work plans that OES developed to monitor and evaluate the progress on the information technology projects. Also, efforts to implement RIMS consumed the few resources that the information technology branch had and thus delayed work on other projects.

We reported in January 1996 (Report 95114) that OES did not have an adequate system for managing the large volume of documents created during the process of claiming costs incurred from a declared disaster. Its system was predominately manual and outdated, requiring an inordinate amount of time for staff to access necessary information and exposing OES to potential loss of documents.

*In its first attempt to automate the disaster recovery process, OES failed to well define the manual activities, completely test the system, or exercise control over the consultant, and eventually partially implemented only a few of the system's components.*

In 1994, OES management had already recognized the need for an effective automated system for tracking disaster recovery documents and related costs, and OES hired a consultant to design and implement a Public Assistance Damage Survey Report Management Information System (PADMIS). The PADMIS was intended to replace OES's time-consuming manual process for tracking disaster claims and related correspondence and documents used in the recovery process. The PADMIS was also to include a ledger component for tracking disbursements for disaster claims. However, because OES did not thoroughly define its manual system for processing disaster claims, completely test the automated system, or exercise good control over the consultant's contract, OES eventually partially implemented only select components, which we discuss on pages 41 to 44.

To overcome the types of problems OES encountered when developing the PADMIS and to address the information management needs for its fast-growing hazard mitigation program, OES management again contracted with a consultant. OES asked the consultant to help prepare a strategic plan to identify OES's information technology needs and to outline a methodology for meeting those needs. The consultant completed the information management strategic plan (strategic plan) in September 1995. The strategic plan identified the compelling need to develop a fully integrated claims and grants processing system for use throughout the organization.

The strategic plan also contained an implementation approach that identified both short- and long-term projects. According to the consultant, short-term projects are those that OES must complete before it begins to implement long-term projects. OES was to complete all short-term projects in calendar year 1996, the last one by October 1, 1996. These projects included OES's creation of an information technology branch and a steering committee to provide direction for information technology projects, the establishment of standards for new applications and for new software and hardware, and the development of a methodology for converting existing data to a single computing platform. The short-term projects also involved development of

a wide area network (WAN) to give OES the ability to communicate by computer with other entities on a statewide basis, an inventory system to track computer hardware and other equipment, and a system for tracking and reporting the use of staff time.

According to the strategic plan, the long-term project essential to OES's disaster recovery activities is the installation of an automated information system to process and track disaster assistance claims and hazard mitigation grant projects. The consultant detailed steps required to complete the claims and grants processing system. These steps include defining the role that automation will play in claims and grants processing at OES, completing a business needs assessment that includes all required interactions with the Federal Emergency Management Agency (FEMA), implementing project management using someone with experience in information technology, evaluating various software and hardware, establishing permanent organization and staffing to support the automated system, and developing a statewide implementation plan for the automated system.

## OES Is Behind Schedule on Key Information Technology Projects

*The critical feasibility study to automate OES's claims and grants system will be 15 months late.*

Although it is following its strategic plan for completing essential information technology projects, OES is behind schedule in delivering most of the projects. We observed that, as of December 31, 1996, OES had completed four of the consultant's recommended seven short-term projects, although OES should have completed all seven as of October 1, 1996. In addition, the long-term project to automate the claims and grants process is significantly behind schedule. OES was to complete the feasibility study report by September 30, 1996. However, the report for the new system will not be finished until May 1, 1997, 15 months after OES's consultant completed the first draft of the business process requirements.

OES currently has very little information technology in place to manage the large volume of documents generated during the process of reimbursing disaster-related costs and funding hazard mitigation projects. Most of the disaster recovery activities conducted by OES are manual, outdated, duplicative, and often require more time and staff to access information, conduct analyses, and manage the process and documents.

Without an automated claims and grants processing system, OES does not have information readily available about the status of individual claims or total claims for each disaster, and it is not able to summarize costs of each disaster promptly. OES's lack of useful information systems limits its ability to satisfy information needs of the governor, Legislature, other state agencies, FEMA, and applicants.

### *The Information Technology Branch Has Not Completed Many of the Strategic Plan's Projects*

In our previous audit, we discussed a number of concerns resulting from OES's lack of a strategic plan for information technology, and we noted an absence of documented standards, policies, or procedures; serious problems with the PADMIS; and a lack of oversight in the purchase of information technology equipment. As discussed earlier in this chapter, OES completed in September 1995 its first strategic plan presenting seven short-term projects (requiring less than one year) and three long-term projects (requiring five years). A summary of these ten strategic projects, and the current status of each, appears in Figure 1.

During calendar year 1996, OES made some progress in automating routine tasks and thus in better managing the volume of documents, correspondence, and reports generated during the recovery process. However, OES finished just two of the seven short-term projects on time. It completed a third project eight months late and a fourth was three months late. These are the following four projects that OES completed:

- Creation of a management information systems steering committee.

- Development of a methodology to transition to a single computing platform, that is, to use the same hardware and software configuration officewide.

- Creation of a new information technology branch, although its completion was delayed nearly eight months.

- Design and implementation of a WAN to communicate among different OES offices, other state agencies, and counties. OES implemented the WAN by the end of December 1996, three months behind schedule.

# Figure 1

## Status of OES's Information Management Strategic Plan

**Original Plan (bars)** | **Status**

| | 95 Q4 | 1996 Q1 Q2 Q3 Q4 | 1997 Q1 Q2 Q3 Q4 | 1998 Q1 Q2 Q3 Q4 | 1999 Q1 Q2 Q3 Q4 | 2000 Q1 Q2 Q3 Q4 |
|---|---|---|---|---|---|---|

**Short-Term Projects**

1. Create information technology branch — *Status:* Delayed by eight months, completed November 21, 1996.

2. Create management information system steering committee — *Status:* **Completed early 1996.**

3. Design/implement a wide area network — *Status:* Delayed by three months, completed December 31, 1996.

4. Acquire/implement asset inventory control system — *Status:* Not completed. Planned completion by January 1997.

5. Develop information technology standards — *Status:* Not completed. No plans to document standards formally.

6. Develop methodology to transition to single computing platform — *Status:* **Completed "methodology" by June 30, 1996.**

7. Develop timekeeping/activity-tracking system — *Status:* Not completed. Planned completion January 1997.

**Long-Term Projects**

1. Prepare OES to deploy statewide digital information system — RIMS pilot complete; will provide to 20 required State agencies and all 58 counties by Dec. 1996. No other documented plans.

2. Improve/implement claims/grants processing system — Feasibility Study Report not yet begun, pending new requirements definition from Disaster Assistance Branch.

3. Continue to implement geographic imaging system — Ongoing.

Source: (1) Strategic plan, September 1995
(2) Interviews with information technology branch

The first short-term project completed by OES was the creation of the management information systems steering committee, which is not a separate committee but a group of managers that already meets every other month. This group includes all branch managers, the three regional coordinators, and three members of the executive branch. Although the strategic plan requires the committee to prepare a charter, the committee has not yet done so. The committee has also not yet developed an issue paper or "white paper" on technology issues, nor has it published any minutes of meetings discussing technology decisions. However, in response to requests for this information from the California State Auditor, the committee did establish the following three priorities for information technology projects:

Priority 1:    Implement the Response Information Management System (RIMS). This system tracks requests for emergency assistance, the availability of resources to meet these requests, and the status of the response to a disaster.

Priority 2:    Implement office automation projects. These include automation of (1) time and activity reporting, (2) budget and expense tracking, (3) purchasing, (4) contracts, (5) inventory tracking, and (6) personnel information (including all pertinent information, such as skill sets and training).

Priority 3:    Develop a disaster assistance claims and grants processing system.

The second short-term project completed by OES was the development of a "methodology" to convert existing data and applications to a single computing platform. This project involved an OES decision to use only Microsoft Windows and Intel-based personal computers for all officewide applications. OES believes that it met the strategic plan schedule with this decision. However, OES's actual transition to the single platform may not be complete until January 1997. According to the information technology branch manager, by December 1996, during the seventh week of a ten-week plan to convert to these personal computers, OES had deployed only 10 percent of the computers.

As previously stated, the completion of the third short-term project, OES's creation of the new information technology branch, was behind schedule nearly eight months, thus preventing any OES effort to fill critical positions needed to deliver the promised technology to disaster assistance programs.

As a result, two-thirds of the 50 authorized information technology branch positions remain vacant. Limited-term or contract employees are filling 17 of the 50 positions temporarily. In fact, counting one temporary employee and half the time worked by a contract employee, the information technology branch has only 1.5 positions assigned to developing new information management applications, although OES has eight authorized application development positions available.

*OES will not complete the staffing of its information technology branch until June 30, 1997.*

During November 1996, OES submitted its proposed information technology branch reorganization plan to the State's Department of Personnel Administration (DPA) for approval. The DPA approved the package two weeks later. According to the information technology branch, OES may not hire for and fill all 33 vacant positions in the branch until June 30, 1997.

Apparently six to nine months behind schedule, the following three short-term technology projects remain incomplete:

- Acquiring and implementing an asset inventory control system to identify, describe, and track the assignment and location of computer hardware and other equipment. OES began working on this system in November 1996 and plans to train one person from each branch and region about the system's use by January 1997.

- Developing information technology standards to systemize the definition of development projects and databases; the approach to systems development; and the justification, acquisition, and implementation of hardware and software. Such standards will also ensure OES's compliance with the State Administrative Manual. OES currently has no plans to document these standards formally, although the information technology branch manager is depending on user and system documentation from IBM (for Lotus Notes) to supply many of the standards and much of the training for staff.

- Creating a timekeeping/activity-tracking system to capture the time spent by every OES employee so as to determine reimbursable labor costs, manage progress on existing projects, and plan for and staff future projects. OES plans to implement this system by January 1997.

The information technology branch has piloted a number of office automation projects targeted for OES's recovery activities, and OES users have indicated that these projects will be extremely useful and provide tangible benefits. However, none of these computer applications is yet in full production. Although the one application developer assigned to these projects is well qualified and efficiently used in the information technology branch, much time has elapsed since OES first conceptualized these projects. This delay prompts questions because these projects are fairly simple, and OES originally planned to complete two of these projects by June 30, 1996.

As previously discussed, several office automation projects appear on the list of priorities established by the steering committee. The information technology branch is using advanced development techniques and application software intended to prepare quickly each of these systems for testing, modifying, and training users. However, several of these systems appear stuck in test mode. For example, the steering committee designated the time and labor cost tracking system as one of OES's priorities, and the information technology branch first placed this system in test mode in July 1996. However, OES still has not fully implemented this tracking system. As of January 17, 1997, only 92 employees, or 15 percent of OES employees, were using the system.

*The underlying causes for implementation delays are the lack of formal work plans and insufficient commitment of staff resources.*

In our view, the underlying cause for the implementation delays for all the office automation projects is OES's lack of formal work plans for the projects. A simple plan would at least show activities, due dates, deliverables, and who is responsible for completing the project. The information technology branch has had a minimal, incomplete plan that only partially identifies a few of these office automation projects but contained no estimate of hours necessary to complete each project. Without a good plan, OES cannot define the work, establish realistic schedules, assign responsibility to individuals, monitor progress, manage the scope of the system, report on progress, and hold people accountable for completing required tasks.

Also, OES's commitment of just 1.5 staff positions to developing new systems has delayed the office automation projects. In December 1996, the reorganization plan creating the information technology branch was finally approved, and OES

is now beginning the six-month process of identifying, recruiting, and hiring qualified individuals to fill the 33 vacant positions in the 50-person branch.

### *The Project Time Reporting System Will Provide Critical Information to OES*

OES expects officewide adoption by January 1997 of the project time reporting system that OES originally planned to complete by June 1996. This automated system will be a valuable tool for readily determining reimbursable costs, managing progress on existing projects, and planning and staffing future projects. When all employees use this system, OES will have prompt access to data on labor hours and costs, which will help OES's staff request FEMA reimbursement, manage projects, and plan for and justify future staffing needs.

*When implemented, this system will allow OES to bill FEMA more frequently, thus improving cash flow.*

OES management placed a high priority on developing this system because of the millions of dollars in reimbursable expenses that OES needed to account for and report properly. When all OES employees begin using the system, timely and documented information on reimbursable labor costs will be readily available. The system should reduce the time OES needs to assemble and calculate these costs and maximize OES costs that FEMA reimburses. The system also will allow OES to bill FEMA more frequently than once every three months, a practice that will improve cash flow and maximize receipt of federal funds.

We reviewed the project time reporting system and found it informative and easy to use. The system is capable of capturing and reporting the work hours for all employees, and it can quickly summarize total hours by any number of categories, including by disaster, by branch, or by program. OES managers will now have information on how much time employees spend on specific tasks and projects, and this data will provide new tools for monitoring projects. Historical information will be available to mangers who need to develop workload standards, plan for future staffing needs, and better justify budget requests.

### *Efforts To Replace the PADMIS Have Taken More Than One Year*

In January 1995, OES piloted the PADMIS. The PADMIS was intended to automate the manual processing of disaster survey reports. However, users of the PADMIS immediately experienced several technical problems with the new system.

These problems, documented by OES in a July 19, 1995, "baseline" report prepared by an independent contractor, included processing delays in scanning documents, software interface problems, and network failures. OES had implemented the PADMIS without (1) completing a traditional feasibility study report, (2) analyzing design options, (3) obtaining a competitive procurement, (4) recruiting an experienced project manager, (5) developing a stable work plan, (6) generating a project budget, or (7) defining performance measures. The State Administrative Manual requires a feasibility study, which is a systematic, analytical process for evaluating and documenting the reasonableness of information technology projects, including the justification for investing state resources and an examination of the costs and benefits.

As of September 1995, OES reported having invested over $5 million in the PADMIS. Of the $5 million, $3.3 million was used for hardware and the remaining $1.7 million for services. Because of its problems with the PADMIS, OES has discontinued using nearly all of the system's disaster recovery functions.

*After investing over $5 million in PADMIS, OES discontinued using nearly all of its disaster recovery functions.*

With the PADMIS not in use, OES relies on its old time-consuming manual system of processing claims. To remedy this situation, OES engaged a contractor in fall 1995 to develop functional requirements for a new automated system to process all types of disaster claims and hazard mitigation grants. OES intended the resulting functional requirements to provide the core of a request for proposals from contractors for a new automated system, and OES also wanted the functional requirements to supply the input to a feasibility study report, to recommend a solution to the processing problem, procure the vendor(s), and implement the system.

Although the contractor delivered to OES in February 1996, the functional requirements for an automated claims and grants processing system and OES planned to begin work on a feasibility study report soon after, it has not yet done so. OES now plans to begin work on the feasibility study report in February 1997. If we assume that the current plan to complete the feasibility study report will require three months, we estimate that the report may not be completed and approved until May 1, 1997, or 15 months after the contractor prepared the original draft of an automated system's functional requirements.

Before it can prepare a feasibility study report, OES must define for inclusion in the report the functional requirements of the new claims and grants processing system. However, OES did not effectively manage the contractor's work on defining these functional requirements. Further, it did not involve appropriate users nor provide consistent management over the course of the project. As a result, the original draft of the functional requirements that the contractor submitted to OES in February 1996 was unacceptable to the disaster assistance personnel who process disaster claims, and the draft document is only minimally acceptable to the hazard mitigation personnel who process grants. OES disaster assistance and hazard mitigation management have since decided that the Disaster Assistance Branch will define a comprehensive and sufficient set of requirements for the new system. OES can then begin work on a feasibility study report. Although it has no formal work plan for this new effort, OES initiated this work in October 1996 and told us that it will complete the functional requirements no later than the end of January 1997.

One of the shortcomings in the development of the original draft of the functional requirements involves the management of the contractor hired to draft the document. To manage this four-month contractor assignment, OES assigned three different individuals, none of whom had sufficient experience processing disaster claims or hazard mitigation grants (i.e., preparing or reviewing damage survey reports or hazard mitigation applications, preparing supplements, handling appeals, conducting final inspections, or paying applicants).

Furthermore, management for the hazard mitigation program did not submit to the contractor any formal review comments regarding the draft document. Finally, management for the disaster assistance program assigned just one individual to review the entire draft document, and this individual had not been involved in the four-month effort to develop the draft document, nor did she have any experience in most components of claims processing. The individual's resulting review comments did request significant modifications to the business process requirements presented in the draft document. The reviewer submitted these review comments to the project manager nine weeks later. However, the OES project manager decided not to revise the final requirements document to reflect the disaster assistance review comments.

OES management told us that another deficiency in the contractor's February 1996 draft document is that it fails to reflect that FEMA requirements affect how OES must conduct much of its business. According to OES management, FEMA has clearly stated that the federal government will not change its

processes to adapt to OES automated processes. OES also believes that the functional requirements included in the draft document do not properly reflect how OES performs its work. Finally, disaster assistance management and staff contacted during our review said a significant concern is that the February 1996 draft document attempts to define requirements for a single, generic claims and grants processing system, when in fact significant differences exist between processing procedures for claims and those for grants.

In addition, the Disaster Assistance Branch told us that it was not satisfied with the draft document's specifications. The Hazard Mitigation Unit stated the proposed system's functional requirements were overly simplified and described its process in "bare-bones" terms. Also, the claims processing staff told us that the contractor relied too heavily on the baseline assessment of the PADMIS, which was out of date and did not focus on functional requirements.

The Disaster Assistance Branch and the contractor disagreed on a number of issues, and OES did not resolve these issues promptly. In discussions with our audit team, the contractor believes there were three problems with the effort to define functional requirements for an automated claims and grants processing system:

- OES staff would not return calls from the contractor team when the team was cross-checking functional requirements. The contractor informed the OES director of this problem.

- OES did not understand the functional requirements for the claims and grants processing system. The February 1996 document was never intended to be a design document nor does it provide computer screen definitions. Rather, it describes the business needs of a combined claims and grants processing system.

- OES disaster response operations are the primary concern of OES management, so the contractor had difficulty focusing the organization on systems not directly related to response operations, such as claims and grants processing.

OES spent some effort attempting to obtain an approval from the Technology Investment Review Unit (unit) of the Department of Finance for an alternative (streamlined) procurement of the claims and grants processing system. This attempt delayed OES efforts to begin work on the feasibility study report for the new system. OES ultimately withdrew its request for an alternative procurement before the unit made a formal decision.

According to OES, the Department of Finance had indicated that OES's estimated cost savings required for an alternative procurement would not actually occur. Another reason given by OES for its withdrawing the request was that it wanted to concentrate OES resources on obtaining approval of other budget change proposals for the Disaster Assistance and information technology branches for fiscal year 1996-97.

### OES Plans To Enhance and Implement Several Useful Components of the PADMIS

Despite past problems with the PADMIS, the Disaster Assistance Branch believes that five components of the PADMIS are functional, and, when fully implemented throughout OES, can bring efficiencies and increased knowledge to the damage survey report process. OES management and staff we interviewed all wish to keep and expand these components, and they have taken action to do so. The effort required to complete these components appears to be manageable, and the potential benefits to OES could be significant. OES will still evaluate use of the components in its feasibility study report for a new claims and grants processing system.

OES developed these five components or modules using Oracle, a widely recognized relational database system. Although the July 1995 baseline review of the PADMIS was critical of many other PADMIS components, the review concluded that "the Oracle database portion of the PADMIS has functioned from the beginning with few or no problems."

More importantly, users of these PADMIS modules indicated to us that these systems have tremendous value for users managing portions of the disaster recovery process and bring many efficiencies to the Disaster Assistance Branch. Much of the branch uses manual systems to operate, to perform research, and to respond to inquiries. Such activities are time consuming, require physical access to hard-copy files, and can result in inconsistent answers to the same question. The direct benefits of the five PADMIS components, or automated support systems, will be significant, including reduced staff time for research on individual damage survey reports, reduced staff time for analysis of disaster survey report problems, and better management of payments to applicants. Also, OES staff will be able to provide consistent and timely responses to applicant inquiries, and staff can efficiently and accurately determine the cost of individual disasters. Finally, the use of one of the components, the automated ledger system, will remove

the need for several duplicative and noncompatible databases and spreadsheets, and it will eliminate several unnecessary activities within the Disaster Assistance Branch, such as recording information on log sheets, reviewing the work of others, and maintaining duplicate manual payment ledgers.

The Disaster Assistance Branch is moving to complete these useful PADMIS components. Management established and received approval for four new technology positions and the Disaster Assistance Branch established implementation of the ledger system as the top priority for these new positions, placing enhancement of the correspondence log system as the second priority. For OES's southern region, the Disaster Assistance Branch will fill two technology positions as soon as possible. For the northern region, the Disaster Assistance Branch has no specific plans to fill positions assigned to it before June 30, 1997.

The five PADMIS modules and their current status are as follows:

- **Ledger system**—This component will allow OES to track by time period FEMA approvals for all payments. According to demonstrations given to our audit team, the system will provide the needed technology support for OES to track and report efficiently the costs of any disaster, the total payments made to any applicant, and the current payment status of any disaster survey report. Modifying this system and putting it into full production is, and should be, a high priority for the Disaster Assistance Branch. OES placed this system into a "test-and-acceptance" mode before June 1995, but OES has not modified the system since then. The Disaster Assistance Branch documented the specific enhancements that the ledger system needs for OES to finish the test-and-acceptance phase and bring the system up to full production. These enhancements include identifying the needs of each Oracle component, improving the system reference manual to better explain the process to users, establishing written backup procedures and contingency plans, and developing a plan to populate the database with historical and existing payment data. To complete the acceptance phase, the fiscal unit for the Disaster Assistance Branch also identified specific and minor enhancements to the system in order to continue testing and troubleshooting, and the fiscal unit estimated that the modifications may cost just $20,000.

- **Correspondence log**—This module will allow users in the Disaster Assistance Branch to record pertinent information

from all correspondence received and to locate and track correspondence quickly. The Disaster Assistance Branch has been using this module in the southern region for about a year and a half. The northern region does not use the system but wishes to do so. Bringing the system to the northern region will primarily involve purchasing hardware and providing training.

- **Appeals database**—This component is actually a subset of the correspondence system, and OES will use it to record information and the status of appeals of FEMA decisions. The system stalled in development and resides on a test computer. OES needs to pilot the system before it goes into full production.

- **Packaging and linking correspondence**—This part of the PADMIS system will allow OES to link automatically all correspondence related to a given topic. This capability will let OES research appeals efficiently, prepare supplements, and consolidate all correspondence for a single disaster survey report. The system stalled in development and resides on a test computer. OES needs to pilot the system before it goes into full production.

- **Reviewer's database**—This module will allow OES reviewers to record and track comments on a disaster survey report, including OES's official position (the grantee's damage attachment) on a damage survey report. The Disaster Assistance Branch has had the system in full production for about a year and a half in the southern region, but the northern region does not use it. According to OES, it has not estimated the costs or completed a schedule to introduce the system to its northern region, but costs would primarily involve purchasing hardware, establishing formal processes, and providing training.

According to the chief of the Disaster Assistance Branch, OES has not yet prepared a schedule for the full implementation of these five components, assuming that a schedule will be part of the feasibility study report for the new claims and grants processing system that OES is developing.

## Various Factors Have Contributed to Delayed Implementation of New Information Technology Systems

In addition to the reasons cited earlier, many factors are contributing to delays in OES's development of new automated systems. First, OES's "work plan" is inadequate. This overall work plan includes plans from the information technology branch and consolidates the plans of all OES branch managers for the upcoming fiscal year. However, branch mangers rarely use the work plan to manage changes during a project or to monitor and evaluate progress during the year. Further, branch managers are inconsistent in providing data for their individual plans. For example, the Disaster Assistance Branch lumps all staff time under a few managers, whereas the information technology branch provides hours and objectives for some of its staff.

The information technology branch has a second, more detailed work plan for fiscal year 1996-97. However, this plan is incomplete. This particular work plan identifies just 14 of 34 existing branch staff. The plan also does not include any estimate of the hours that these 14 individuals are to spend on projects, list activities or responsibilities of the 20 other existing staff, or identify any of the 16 remaining, unfilled branch positions.

In addition, work on the Response Information Management System (RIMS), discussed in the next section, consumed the few resources of the information technology branch, thus delaying work on other initiatives that OES management had given lower priority. The OES director established RIMS as the highest priority for the information technology branch, which subsequently assigned the resources to develop and pilot the system successfully and then provided the system to a number of counties in the State.

Implementation of a project time reporting system has also been delayed. According to the manager of the information technology branch, two factors contributed to this delay: the original concept of the system changed, and the Disaster Assistance Branch delayed for several months the assignment of someone to design the system. According to management in the information technology branch, the southern disaster field office of the Disaster Assistance Branch requested that the project time reporting system be identified in the strategic plan. The southern disaster field office originally planned to purchase and install an off-the-shelf time reporting system. However, the field office had no information technology group, and no one

*OES's "work plan" is inadequate and seldom used.*

worked on the application at the time that the strategic plan first identified the system as critically necessary. In the summer of 1996, the southern field office realized it needed the system soon. The information technology branch manager committed to providing the system and chose Lotus Notes to develop it. Although OES piloted a preliminary version of the system in July 1996, the system is still not in full production, and OES is now finalizing the list of activities that employees will be able to record their time against for both reimbursable and nonreimbursable tasks.

### OES Developed the Response Information Management System Quickly and Economically

The California Government Code, Section 8589.1, requires OES to automate the collection and dissemination of essential information during an emergency. However, the Legislature has not specified a date by which OES is to implement this State Computer Emergency Data Exchange Program. A feasibility study report done shortly after passage of the legislation estimated the cost of developing such a system at $2.3 million, with unknown ongoing costs. The Legislature has never made funds available, so OES's manual system was retained.

*The RIMS was tested during the flood disaster of 1997.*

In 1995, the OES director established implementation of RIMS as the top priority for the information technology branch and placed the system as the first of three long-term information technology projects identified in OES's 1995 strategic plan. OES staff have since developed, piloted, and partially deployed RIMS, which is an automated system for tracking requests for resources, the availability of resources to meet the requests, and the status of the response to a disaster. OES has used RIMS to track all responses to disasters since September 1995, and OES has tested it during the recent flood disaster of 1997.

RIMS allows OES to gather comprehensive information for each request, which OES can then use to decide the type and number of emergency personnel and equipment to use in response to the request. As noted in our January 1996 audit report, an OES regional administrator and employees from the California Conservation Corps indicated that this information is one of the most important aspects of RIMS because the quality of information OES obtains during a disaster can limit OES's response effectiveness.

RIMS also allows any emergency response agency using the system to view requests for emergency equipment and services instantaneously as OES enters the information on its screen. Two of the three OES regional operations centers used RIMS during the floods that occurred in January 1997. As of the end of December 1996, OES planned to provide RIMS to all 58 counties as well as to emergency operations centers in over 20 departments within the State.

OES was able to develop and deploy RIMS for a relatively low cost and in a much shorter time frame than is typical for information technology projects of this scope in the State of California. To date, OES has spent approximately $307,000 for personnel, software, and hardware to develop, pilot, and deploy the system it now uses for disaster response. The original estimate for the emergency data exchange system, a system with somewhat different objectives than RIMS, was $2.3 million. Work began on RIMS in February 1995, or 23 months ago. This time span compares favorably with the two and one-half to four years typically required for the design, procurement, and implementation efforts involved in most technology projects, as documented by the Governor's Task Force on Information Technology (September 1994).

OES's director focused RIMS efforts on two key goals and did not attempt to design a system that would do everything that might possibly be of use during response efforts. The two primary goals established and met by RIMS are the following: (1) enabling mission tasking (i.e., obtaining emergency requests from the field for resources such as fire trucks, helicopters, or tents, and assigning responsible agencies to fulfill these requests), and (2) collecting, sorting, and disseminating information quickly in compliance with the Standardized Emergency Management System, which is a management system that standardizes procedures and principles used in responding to emergencies involving multiple jurisdictions.

Another factor contributing to the relatively short time frame required to develop RIMS was the information technology branch manager's use of "rapid application development" techniques and of Lotus Notes, an application development and document management software, to create the underlying computer code quickly. Information technology personnel met with potential RIMS users to design computer screens and to duplicate existing response forms that would become part of RIMS. In many instances, when personnel completed design of the screen or form, they had already generated the underlying software code. A traditional approach would have involved the application developers meeting with users, retreating back to their offices to write code, and then

*Using "rapid application development" techniques, RIMS was developed and deployed for a relatively low cost and in a short time frame.*

demonstrating the results to the users for additional feedback. This process normally repeats until users accept the design of the system. Lotus Notes is now OES's standard software and will be used in all future application development except in certain select cases.

# Chapter 3

## Chapter Summary

Despite its inefficiencies and shortcomings, we believe that the Office of Emergency Services (OES) should remain the state entity responsible for processing claims for the disaster assistance grant program (disaster assistance program) and overseeing the hazard mitigation grant program (hazard mitigation program). As explained in the introduction to this report, OES is responsible for representing the State's interests to the Federal Emergency Management Agency (FEMA). OES's advocacy has resulted in increased federal funding on approved damage survey reports for California applicants, and OES's involvement in the review of damage survey reports seems to keep applicants from overusing the appeals process. In addition, members of California's emergency recovery community have told us that OES has done an effective job of keeping them informed about the disaster assistance program. Further, OES is now better prepared to cope with new disasters because it has improved its plan for rapidly hiring temporary staff when a disaster strikes. During the past year, OES has expanded its ability to manage peaks in its disaster assistance workload by contracting out some of its disaster assistance and hazard mitigation work.

## OES Has Influenced FEMA To Reinstate Disaster Relief Funds

One of the advantages of having OES involved in California's disaster assistance program is that OES has a reputation for effectively representing to FEMA the applicant's position on damage survey reports. FEMA is the ultimate decision maker on funding for each damage survey report. However, through its own reviews, OES can influence FEMA's decisions on funding of damage survey reports. In some cases, after reviewing a damage survey report, OES has persuaded FEMA to change its decision after FEMA had initially reduced or eliminated the scope of work or otherwise reduced funding on that particular damage survey report. In this way, OES provides greater assurance that California applicants are obtaining all of the disaster assistance funds to which they are entitled.

Typically, FEMA writes damage survey reports in the field after a joint FEMA/OES inspection team has surveyed the damage to the facilities of a particular applicant. FEMA then reviews each initial damage survey report to determine that the report outlines a scope of work that is eligible for federal funding. This review also ensures that the costs projected for each damage survey report are reasonable. To ascertain that it agrees with FEMA's eligibility determinations and that California applicants will receive all eligible funding, OES historically has participated in reviewing damage survey reports that result from FEMA/OES surveys of damage and from FEMA's inclusion of such damages in damage survey reports. However, in response to concerns about slow processing of damage survey reports for the winter floods of 1995, FEMA decided that OES would not participate in the review of these damage survey reports. Therefore, between July 1995 and April 1996, FEMA was the only agency to review damage survey reports.

When FEMA reviewers reduce or eliminate the scope of work described on damage survey reports or reduce inappropriately the costs listed on damage survey reports, OES attempts to influence FEMA's ultimate decision by showing FEMA that it has erred. Many times, OES is successful in reinstating funds or scope of work that FEMA has deleted. For example, FEMA recently denied parts of one northern California applicant's damage survey report dealing with the stabilization of an earthen embankment. FEMA stated that it would not pay for the work to make the site stable, declaring that this was the applicant's responsibility. Once stabilization occurred, FEMA said that it would be willing to cover the costs of restoring the facility to the condition it was in before the disaster occurred. However, OES successfully argued that the costs associated with the stabilization of the site were indeed eligible for disaster assistance funds. Ultimately, FEMA relented and restored those parts of the applicant's damage survey report that it had initially denied.

We asked OES to provide us with other examples of situations in which FEMA and OES initially did not agree on the appropriate scope of work and in which OES's reviews resulted in the reinstatement of funds that FEMA had earlier deleted from the damage survey reports. OES supplied us with 60 examples dating from April 1996 through September 1996 and related to the winter floods of 1995. In these instances, after reviewing the damage survey reports, OES was successful in reinstating for applicants over $1 million in eligible costs.

*For 60 claim examples provided to us for the 1995 winter floods, OES was successful in reinstating over $1 million in eligible costs for applicants.*

## When OES Did Not Fully Participate in the Damage Survey Report Process, Appeals of FEMA Decisions Quadrupled

A second major advantage of having OES actively involved in the disaster assistance program and the related damage survey report process is that the percentage of instances in which applicants appeal FEMA decisions seems to decrease. Appeals to FEMA are time-consuming and expensive, and they should be avoided if at all possible. One way to reduce the number of appeals is for the applicant, OES, and FEMA to do everything possible at the outset to reach agreement on the scope of work and the associated costs of a damage survey report. If agreement occurs, the applicant has no need to appeal. OES involvement in the review of damage survey reports seems to foster a more thorough discussion between the applicant, OES, and FEMA about the issues that are being contested, and this discussion leads to a greater potential for agreement.

We compared the percentage of damage survey reports appealed when OES was not involved in the review process to the percentage of damage survey reports appealed when OES was involved and found there was a significant difference. Table 1 highlights this difference. For example, the percentage of damage survey reports appealed was four times greater for flood reports that did not involve OES in the review process compared to flood reports that involved OES. These figures suggest that having OES as an active participant in the review process for damage survey reports has benefited California applicants and contributed to a streamlined process for administering the disaster assistance program.

### Table 1

**Appeals as a Percentage of Disaster Survey Reports by Type of Disaster**

| Number of Disasters | Disaster Type | OES Participation in Review Process | Number of Damage Survey Reports | Number of Appeals* | Percentage of Appeals |
|---|---|---|---|---|---|
| 2 | Floods | Not Involved | 18,400 | 943 | 5.1% |
| 2 | Floods | Involved | 9,300 | 112 | 1.2 |
| 2 | Fires | Involved | 400 | 8 | 2.0 |
| 2 | Earthquakes | Involved | 33,600 | 495 | 1.5 |

*The number of appealed disaster survey reports is based on summary information provided by OES.

## FEMA and Assistance Applicants Have Indicated That OES Has Met Their Needs

As part of our January 1996 report on OES, we interviewed members of the emergency management community, and they told us that OES was generally meeting the needs of those it serves. As we pointed out in that report, "the FEMA Region IX administrator stated that OES was among the best state emergency management agencies in meeting its responsibilities in the recovery process, noting in particular OES's effectiveness at notifying potential applicants about the availability of disaster assistance funds and educating applicants about what constitutes reimbursable costs." Our 1996 report also sought the opinions of local and state government representatives who had received assistance from OES, and they indicated that OES has been essential in their recovery from the effects of disasters. For example, the commander of the Office of Research and Planning of the California Highway Patrol (CHP) noted that OES is good at notifying CHP about the availability of funds and the nature of the costs that are reimbursable as a result of CHP's response to disasters. In addition, representatives of two local governments indicated that OES acts as their advocate in dealings with FEMA, and they appreciated its support. One of these representatives also noted that OES helps the recovery process move relatively quickly by helping to resolve disputes with FEMA. Even applicants who have been through several disasters and have experience working with FEMA appreciate OES's role as a central source of information about the disaster assistance program and as a coordinator of responses to FEMA.

## OES Has Made Progress in Its Plan for Rapidly Hiring Staff After a Disaster Strikes

As we discussed in our January 1996 report, the Northridge earthquake exposed some flaws in OES's plan for quickly hiring staff after a disaster strikes. After the 1994 Northridge earthquake hit, it became clear that OES did not have sufficient employment lists to meet the hiring needs created by a disaster of that size.

OES has several available options for obtaining staff to assist with recovery during or immediately after a disaster, including hiring employees through emergency appointments. These appointments allow OES to hire needed employees for short periods without its having to follow civil service procedures. Also, if OES still needs emergency hires after its emergency

authority has expired, OES can take steps to convert these emergency staff to limited-term employees. Hiring staff as limited-term employees requires that those persons hired have had their names on a civil service employment list of eligible candidates. In hiring staff as limited-term employees, OES must follow civil service procedures, which require more time than procedures for emergency appointments. Limited-term appointments last for two years.

When the Northridge earthquake hit, OES had to hire more employees than were on its employment lists at that time. In other words, to address its need for more disaster worker service specialists, OES had to make many emergency appointments immediately and then later go through civil service procedures to establish employment lists for limited-term appointments. This employee shortage created personnel work for OES that it could have avoided had it maintained better employment lists. Furthermore, the personnel office was slow to react to OES's need to hire additional personnel staff to process the personnel documents of employees hired to respond to the Northridge earthquake. The personnel officer stated that for past disasters the personnel office was accustomed to hiring no more than 50 people, except in the case of the Loma Prieta earthquake. However, during the 11 months after the Northridge earthquake, the personnel office received 1,194 personnel action requests, from which it made 557 appointments.

OES has since taken steps to expedite the process of hiring large numbers of competent employees quickly. To do so, OES continuously interviews interested candidates and in this way maintains a list of potential hires for its disaster assistance and hazard mitigation activities.

*By continuously interviewing and by holding several civil service examinations, OES's employment lists have 514 eligible disaster assistance workers.*

Moreover, since the Northridge earthquake, OES has conducted several civil service examinations that have helped identify a sufficient number of candidates for the lists of jobs in OES's disaster service worker series. OES now has employment lists that include the names of 514 candidates who are eligible to work for OES as disaster service workers should another major disaster occur. OES will continue to maintain these lists by conducting civil service examinations on a continuous basis.

For the past year or so, OES also has had a new organizational structure that it believes will enable more responsive delivery of disaster assistance in the future. OES has divided the State geographically among 18 area coordinators. Each of these coordinators will have area service representatives on his or her team. According to the chief of the Disaster Assistance Branch, each area service representative will provide disaster assistance services for applicants in the geographically assigned areas. A

few team members will be permanent staff, while the remaining team members will be limited-term employees. If the need arises, some temporary members of each team may be individuals under contract to OES.

To further speed its process for hiring employees quickly, OES has increased the size of its personnel office and developed a new plan in which personnel activity will belong temporarily to the Disaster Assistance Branch while the hiring of new staff takes place.

### OES Has Begun To Use Independent Contractors for Part of Its Disaster Assistance and Hazard Mitigation Work

One of the steps that OES has taken to improve the way that it performs disaster assistance work is to contract out a portion of its claims processing work. When a building or facility has suffered structural damage, the applicant is required to provide a report on the damage that has occurred and a repair scheme that is appropriate. These documents, which are known as architectural and engineering reports, must be reviewed by OES to ensure that the scope of work suggested is appropriate and that the costs associated with the work are reasonable. In October 1996, following the State's procedures for the award of contracts, OES entered a contract with the firm of EQE International, a consulting firm experienced in the areas of civil engineering and the estimation of construction costs, to assist with these reviews.

In addition, OES is contracting out a specific analysis required by FEMA for the hazard mitigation program. To help it decide which proposed hazard mitigation projects should receive funding, FEMA requires that OES submit a cost-benefit analysis for each project. For those hazard mitigation projects related to recent earthquake and flood disasters, OES is currently contracting out the cost-benefit analyses to a private vendor.

*OES will be evaluating the cost effectiveness of contracting various activities versus doing it in-house.*

As part of a pilot project to find contractors for a portion of OES's disaster assistance and hazard mitigation work, OES will be evaluating the cost-effectiveness of contracting versus doing this work in-house. According to the chief of the program support unit, southern region, OES has assigned him the task of comparing the cost of hiring a contractor to the cost of having an OES employee perform the same work. This evaluation will

help guide OES in future decisions that it makes about using contractors for parts of its disaster assistance and hazard mitigation programs.

In November 1996, OES reported to the Legislature that field inspection may be another activity for which OES can hire independent contractors. Field inspectors for OES are responsible for going out to the locations where damage has occurred, assisting in the preliminary assessment of the damage, and determining the appropriate scope of work to repair the damage. Field inspectors also help estimate the costs associated with making the repairs. Using contractors can be advantageous because the practice allows OES to better address any surge in its workload created by a major disaster, such as the Northridge earthquake. Then, when the workload tapers off, OES does not have to lay off or reassign extra staff. In other words, contracting is one more way for OES to rapidly adjust its staffing according to its current workload.

# Chapter 4

As we reported in January 1996, the Office of Emergency Services (OES) operates very effectively during its immediate response to emergencies by organizing quickly the distribution of emergency response resources to minimize loss of life and damage to property. However, at that time we also described our concerns about the limited success OES has had in meeting its responsibilities during the recovery phase of a disaster. Then and now, we saw weaknesses in OES's management of claims and grant processing for the disaster assistance grant program (disaster assistance program) and the hazard mitigation grant program (hazard mitigation program). We recognize that OES has much recovery work to do because of the series of disasters that has struck California during the past several years, but OES would become more effective in accomplishing its recovery workload if it were to take a more organized and planned approach to its work. Also, we believe that OES can reduce its workload by streamlining several aspects of its recovery activities. With these premises in mind, we offer to OES the specific recommendations listed below.

To take a more organized approach to its workload, OES should complete the following steps:

- Standardize procedures for accomplishing its key recovery activities;

- Develop clear priorities for its recovery work and then clearly communicate such priorities to appropriate personnel throughout OES;

- Assign core personnel to remain in the office when disasters strike to ensure that OES does not neglect recovery work on prior disasters; and

- Establish methods for measuring whether OES is effective in accomplishing its disaster assistance and hazard mitigation responsibilities.

To reduce its workload and make the most of its resources, OES should streamline its recovery activities in these ways:

- Adopting a risk-based approach to final inspections of the local governments and nonprofit organizations that have received assistance through the disaster assistance and hazard mitigation programs;

- Eliminating duplicate or unnecessary audits from the final inspection process;

- Removing unnecessary steps for making payments to applicants in the disaster assistance program as well as consolidating separate databases and modifying several desk procedures associated with the payment process;

- Revising the Notice of Interest (NOI) form to obtain early in the process additional pieces of information from potential applicants in the hazard mitigation program that will enable OES to screen out projects that OES will ultimately find ineligible or of too low a priority to receive funding; and

- Taking a risk-based approach to reviewing requests for reimbursement from applicants in the hazard mitigation program, rather than reviewing all of the reimbursement requests that it receives.

Because OES administers federal programs, the Federal Emergency Management Agency (FEMA) pays about half of OES's operating expenses. However, OES needs to manage its process for seeking reimbursements more rigorously. Specifically, OES should take these actions:

- Perform a thorough analysis to determine the amounts that FEMA has not yet reimbursed from the 15 open disasters for which OES has not yet sought reimbursement;

- Reconcile the reimbursable administrative costs that OES incurs in administering the federal assistance programs to the actual reimbursements it receives to determine whether OES is fully recovering its costs; and

- Make more frequent drawdowns from the U.S. Treasury to cover its statutory administrative costs.

OES is in the middle of implementing its September 1995 strategic plan for finishing short-term and long-term information technology projects. OES should continue its efforts to develop

these information technology projects, and it should emphasize those projects that are currently being pilot tested and are close to being ready for implementation officewide. More specifically, OES should do the following:

- Place a high priority on completing the five components of the automated claims and grant processing system. These components are the ledger system, the correspondence log, the appeals database, the correspondence packaging system, and the reviewer's database. In addition, OES should place a high priority on fully implementing the automated time reporting system.

To facilitate the development and use of its information technology projects OES should take these steps:

- Develop a work plan that sets forth deadlines for each project, the hours estimated to complete the project, and the person responsible for project completion. Also, OES should evaluate at least monthly its progress in accomplishing each element of the work plan.

We conducted this review under the authority vested in the state auditor by Section 8543 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope of this report.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Date: January 30, 1997

Staff: Steve Hendrickson, Audit Principal
Doug Cordiner
Christine Berthold, CPA
Jennifer Buck
Jacque Conway
Virginia Anderson Johnson

# Appendix

## Recommendations From Our Previous Report and the Results of Our Review of OES's Corrective Actions

The Legislature took specific actions to address the following recommendations identified in our previous Report 95114, dated January 1996:

- **Amend the California Government Code to allow the Office of Emergency Services (OES) to retain limited-term employees longer than two years for the recovery effort.**

The current Government Code authorizes the State Personnel Board (SPB) to delegate to departments the ability to make limited-term appointments for up to two years beyond the two-year limit when such an extension is needed to complete construction projects. In addition, the Legislature approved OES's most recent budget change proposal, which provides OES with new permanent staff to address the long-term staffing needs necessary to complete the recovery phases of California's past disasters.

- **Appropriate sufficient general fund moneys to fund approximately 600 employees for the Disaster Assistance Branch for fiscal years 1995-96 and 1996-97.**

The Legislature appropriated funding to OES for fiscal year 1995-96. In addition, it appropriated nine months of funding for fiscal year 1996-97, the additional three months pending the receipt of this audit.

OES[1] took specific actions to address the following recommendations identified in our previous report:

- **Work with the Department of Personnel Administration (DPA) or SPB to establish a task force of employees trained in personnel matters to be available to help OES hire employees when the workload exceeds the capacity of its own personnel employees during emergencies.**

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[1] Source: OES six-month response to the Bureau of State Audits recommendations presented in Report 95114, dated January 1996. We confirmed the responses as of December 1996.

Based on recommendations from DPA, OES contacted personnel officers from ten state agencies, six of which identified a total of 11 staff to assist OES with hiring personnel during an emergency. OES is scheduled to provide training to these staff on January 14, 1997.

- **Work with DPA or SPB to establish a cadre of employees trained in disaster recovery that would be consistently available to assist with the recovery from disasters of periods of up to a year.**

  By testing job applicants in the disaster worker class series, OES maintains lists of potential temporary employees to assist in disaster recovery. In January 1996, OES gave the most recent tests, in the form of supplemental applications, for the Specialty Services classification. In August 1996, OES used supplemental applications to test for the Management Services classification. However, OES will not provide disaster recovery training until it hires from these lists.

- **Continue its efforts to maintain civil service lists of at least 200 candidates who can be available during an emergency.**

  As stated above, OES maintains lists of potential candidates to assist in disaster recovery. Currently, OES has on its disaster worker specialty services lists 514 candidates available for hire during an emergency.

- **Establish a time reporting system that documents resources spent on specified tasks for each disaster.**

  OES developed and piloted a new time-reporting system that it has not yet installed. However, OES intends to implement the system in January 1997. Please refer to page 37 of this report for further discussion.

- **Determine the number of permanent staff it needs in the Disaster Assistance Branch and document the rationale for the number.**

  OES prepared a workload analysis and submitted a budget change proposal based on that analysis to the Department of Finance on January 23, 1996. In the proposal, OES requested a total of 563 positions: 323 permanent and 240 limited-term. Although the Legislature approved

funding for the 563 positions, it agreed to fund 240 permanent and 323 limited-term positions rather than the reverse.

- **Continue to implement its strategic plan, placing a high priority on convening the steering committee for information technology to set priorities for implementation of projects and selection of hardware and software.**

OES has had limited success implementing its 1995 information management strategic plan. The management information system steering committee, comprised of executive staff, branch managers, and regional coordinators, established priorities but accomplished little in the way of critical systems to support OES operations. Please refer to page 32 of this report for further discussion. In addition, although OES stated it has a users group that meets monthly, we found that the users group had met only twice in the past ten months.

- **Place the highest priority on the implementation of effective systems for managing documents for the recovery process, maintaining an automated ledger system for damage survey report costs, compiling reimbursable costs, and completing the Emergency Response Information Management System (RIMS) for tracking emergency resources.**

OES placed first priority on completing RIMS, second priority on implementing a system for compiling reimbursable costs, and third priority on implementing systems for managing documents and maintaining an automated ledger (a claims and grants processing system). However, as discussed in Chapter 2 of this report, OES has implemented only RIMS. OES has made some progress on the system to compile reimbursable costs, but it has accomplished little on the claims and grants processing system.

- **Establish a system for identifying costs and monitoring requests for reimbursement of all eligible management costs from the Federal Emergency Management Agency (FEMA) and ensure that such requests are made regularly, no less frequently than once each quarter.**

OES currently calculates and requests reimbursement of its eligible management costs from FEMA on a quarterly basis for the hazard mitigation grant program (hazard mitigation

program) and for costs incurred by the disaster assistance grant program (disaster assistance program) for 3 of 18 open disasters. OES stated that it plans to request reimbursement of disaster assistance program costs on a quarterly basis for the remaining 15 open disasters by the end of fiscal year 1996-97. Refer to Chapter 1 of this report for further discussion of this issue.

- **Develop a thorough analysis of anticipated expenditures and reimbursements for annual budgeting purposes.**

  Beginning in fiscal year 1996-97, OES requires each branch manager to prepare and submit a quarterly fund condition report (FCR). The purpose of the FCR is to provide the budget office with a tool for identifying areas of over- and underspending and to determine the causes of identified variances. OES's fiscal officer received FCRs for the first quarter of fiscal year 1996-97 in November, analyzed the reports, and stated that the reports reflected a total potential savings of $655,360. However, the fiscal officer cautioned that expenditure levels traditionally increase in the second quarter.

- **Work with the Department of Finance and FEMA to establish a system to allow the immediate and binding approval of reimbursement for costs related to emergency response.**

  OES stated that it continues to work on a memorandum of understanding (MOU) between itself and FEMA, and the MOU will provide reimbursement certainty for costs related to emergency response tasks. OES plans to have the MOU completed by July 1, 1997.

- **Exercise discretion in the use of the executive orders authorizing the suspension of the State's contracting requirements.**

  OES established new contracting procedures, effective October 16, 1996, whereby contract managers must provide a written justification for the use of the executive orders to suspend the State's contracting requirements. The justification must include a description of the disaster, the time frame of the contract, explanation of response versus recovery needs, any post-disaster implications, and the contract's goals. In addition to the justification, the contract managers must include a contract cost estimate and reasonableness determination as well as a contractor competency assessment. Because OES has not used

executive orders to suspend the State's contracting requirements since OES established the procedures, we were unable to determine whether the contract managers follow the procedures.

- **Ensure the costs of contracts awarded on a sole-source basis are reasonable.**

  OES established new contracting procedures, effective October 16, 1996, whereby all contract managers must complete a contract cost estimate and reasonableness determination for all sole-source contract requests, which are those that fall outside the competitive bidding process. Because OES has not awarded any sole-source contracts since establishing these new procedures, we were unable to determine whether contract managers complete the determination. However, such determinations should provide OES with useful tools for assessing the reasonableness of sole-source contract awards.

- **Ensure that contractors have experience in the work required under the contracts.**

  OES established new contracting procedures, effective October 16, 1996, whereby all contract managers must complete a contractor competency assessment form for all sole-source contract requests. As previously stated, OES has not awarded any sole-source contracts since it established these new procedures, and therefore we were unable to determine whether the contract managers complete the form. However, because the form requires an analysis of contractor experience, licensure, history, and a verification of at least three references, it should provide OES with a useful tool for determining and ensuring contractor competency.

- **Monitor performance to ensure the contractor complies with the contract.**

  OES established new contracting procedures, effective October 16, 1996, which identify steps for monitoring contract performance. Although the steps appear reasonable, they do not include established time frames for monitoring contractor compliance.

- **Negotiate with FEMA to establish an alternative method for requesting reimbursement and appeals of disaster-related projects that are less than $10,000.**

OES is drafting a proposal to FEMA requesting the development of "very small project" procedures for disaster assistance claims. In addition, OES is proposing that FEMA establish thresholds for expedited review of small dollar amount projects for the hazard mitigation program. OES expects to resolve this issue by July 1, 1997.

- **Request that FEMA allow OES to review damage survey reports for the winter storms of 1995 before FEMA determines whether it will approve any costs.**

  OES requested and received approval from FEMA to begin a joint OES/FEMA review process on April 1, 1996, of disaster survey reports for disasters 1044 and 1046, the winter storms of 1995.

- **Negotiate with FEMA to set up a procedure for an independent, third-party review of major funding issues when FEMA, OES, and the applicant cannot agree on the propriety of FEMA's decisions.**

  OES determined a third-party review of FEMA's decisions related directly to FEMA's discretionary authority and therefore may not be legally possible. OES solicited an opinion from the attorney general to address this issue and expects a response in January 1997.

- **Consistently track damage survey reports with similar issues.**

  OES stated that it plans to incorporate an on-line resource manual as a small subset of its claims and grants processing system. However, as discussed in Chapter 2 of this report, the claims and grants processing system is not complete, and OES does not have a definite time line for its completion.

- **Establish a library of FEMA's past decisions based on major funding issues to use as a reference when similar issues arise.**

  OES stated in its six-month response to the January 1996 audit that it had developed and implemented an appeals database with the ability to track appeals by issue. However, as discussed on page 43 of this report, the database is still in the development stage, and OES has not yet piloted or implemented this system.

- **Solicit an attorney general's opinion that defines legal options available to OES and to applicants for challenging the propriety of FEMA's funding decisions and the circumstances in which each option can be exercised.**

  As discussed on page 66, OES is awaiting an opinion from the attorney general regarding FEMA's discretionary authority.

- **OES should ensure that data gathered from local governments for response purposes are shared with both OES and FEMA recovery staff, avoiding duplicate requests for information.**

  OES stated that in order to avoid duplicate requests for information, OES's Disaster Assistance Division will gather initial damage information and enter it into RIMS. FEMA will then be able to obtain needed information by accessing RIMS using the Lotus Notes computer application and logging into the OES network. OES also stated that it is relocating FEMA support staff at the regional emergency operation centers. In this way, both OES and FEMA can exchange information at a centralized location.

- **To ensure that OES has adequate facilities and equipment during responses to emergencies, the Legislature should provide funding for facilities that meet the requirements of an essential services building and for the replacement of vital equipment, such as fire engines. Until OES has appropriate facilities, it should have a formal back-up plan should the current facilities be unable to function during an emergency.**

  In the 1996-97 budget, the Legislature provided OES $5.3 million for the acquisition, preliminary plans, and working drawings for the new Sacramento OES headquarters and state operations center. If an emergency occurs before OES has its new headquarters, and if it needs to evacuate its current headquarters, OES plans to move the state operations center from its Meadowview headquarters to its other Sacramento area location on White Rock Road. Additionally, to ensure funding for replacement needs, OES designated $900,000 of its $1.5 million equipment budget for the replacement of fire engines and engine equipment.

- **OES should independently calculate the amounts available in the hazard mitigation program and assess the propriety of FEMA's allocations.**

OES stated that because FEMA calculates amounts available in the hazard mitigation program through a formula based on all FEMA-funded assistance statewide, and because FEMA has not provided OES with specific numbers, OES cannot compute the amounts. However, we determined that FEMA provided OES with the calculation, and therefore it appears OES may be able to determine independently, through its own research, the amounts available in the hazard mitigation program.

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*Governor's Office of
Emergency Services*

January 24, 1997

Mr. Kurt Sjoberg, State Auditor
Bureau of State Audits
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Sjoberg:

Thank you for the opportunity to respond to this Bureau of State
Audits (BSA) report.

The Office of Emergency Services (OES) appreciates the BSA
recommendation that OES retain management of the disaster recovery
process. We remain committed to achieving efficiency and effectiveness in
managing recovery programs.

This is BSA's second report on OES in thirteen months. The issues
cited in this report are largely restatements from the audit initiated in 1995. ①*

While we concur with the recommendations in this report, we are
concerned that the report understates the extent of recent, rapid and on-
going changes in OES that are substantially addressing virtually every issue
mentioned in this report.

Nevertheless, OES will implement recommendations contained in this
current audit. The appendix to this report indicates that OES is aggressively
implementing recommendations from last January's report.

## REPORT MISREPRESENTS COMPLEXITY OF RECOVERY ①
## PROCESS

The findings in this audit report nibble at the margins of the disaster ②
recovery process, but do not focus on the central causes of delays and
inefficiencies.

This report asserts that OES' management of the disaster assistance
program is too costly and burdensome, needing simplification. Clearly
current programs must be streamlined; I have argued for such changes for
over a decade.

*The California State Auditor's comments on this response start on page 73.           **69**

This current report misrepresents the complexity of the process by not explicitly stating  the central role of Federal Emergency Management Agency (FEMA) regulations, policies and practices  in dictating the principle features of disaster recovery.

In the 1996 audit report BSA said:

**"FEMA establishes the rules for claiming costs from the federal government...."**

In addition, the report stated:

**"OES' effectiveness in assisting the disaster recovery effort is significantly impaired by certain policies and practices of FEMA...."**

The length of time currently characteristic of the disaster recovery process is fundamentally dictated by federal regulations, policies and practices, not actions or inefficiencies by OES.

To a considerable extent, this current report ignores these conclusions, leading to many assertions that blur the total context of disaster recovery.

Concern over the length of time required for disaster recovery has been recognized in numerous reports from the United States Congress, the General Accounting Office, the FEMA Inspector General, and the National Emergency Management Association.   None of these reports or findings are noted in this BSA work.

In response to the widespread concern over the inherent inefficiencies in the federally-established disaster recovery process FEMA is currently working with a consultant on a major reengineering of the entire process. OES management participate in the working group monitoring this effort, the results of which are the keystone to any successful acceleration and economies in  the recovery process.

## OES HAS ACHIEVED SIGNIFICANT INFORMATION TECHNOLOGY ADVANCES WITH LIMITED RESOURCES

BSA chose to use the timeline developed in a strategic plan released in 1995 to judge whether certain projects are on time.  This strategic plan set forth a series of initiatives that OES is implementing. The timelines should be viewed as goals, not deadlines, particularly since the strategic plan did not include any guarantee that resources were fully available to implement the initiatives according to the initial timelines.

Given the approval delays and funding reductions for information technology development, progress has been remarkable.

The BSA report recognizes this fact in its discussion of the Response Information Management System (RIMS), OES' number one information technology priority.

For example, the BSA report recognizes that: **"OES was able to develop and deploy RIMS for a relatively low cost and in a much shorter time frame than is typical for information technology projects of this scope in the State of California."**

Using the same process, OES has recently automated its timekeeping, purchasing, contracting, personnel and fiscal tracking operations.  (6)

OES is committed to following the same "rapid application development" methodology in completing the automated claims and grants processing system.  Significant efficiencies will be achieved as this system comes on line.  The recovery effort from the current floods provide a real-time opportunity to fast track this development effort.

## EXAMPLES SLIGHT DEVELOPMENTS
## OVER PAST TWELVE MONTHS

Other assertions in the BSA report fail to capture current OES practices that point to more recent improvements in the administration of the disaster recovery process.

- **OES has altered the method for requesting reimbursements from FEMA.  Following recommendations contained in the 1996 audit report and management priorities during 1996 OES brought in the highest levels of federal reimbursement  in the history of the disaster assistance program.**  (7)

- **As a result of executive level involvement in lengthy debates over the standards for repair of hospitals damage in the Northridge approximately $900 million in federal assistance was made available in 1996, a figure approximately 500% above initial FEMA determinations.**

- **The BSA asserts that "OES management" gives priority to emergency response related activities to the detriment of recovery. This is mistaken.**  (8)

The majority of the resources available to OES are used by the disaster assistance branch, and the disaster assistance branch has over 50% of the

total staff assigned to the agency. It is important to note that until the approval of our disaster assistance branch BCP six months ago OES had only 15 full-time staff assigned to the disaster assistance branch.

- **OES has already implemented some of the recommendations to incorporate additional critical information in the Notice of Interest (NOI) form to allow for early screening of hazard mitigation proposals.**

OES believes that by pursuing this course of action, staff resources can be directed to other priority areas. This early identification of viable projects will not, however, eliminate the need to perform all required federal reviews.

## CONCLUSION

Despite our reservations about the specific language and examples cited in this report, OES is committed to implementing each recommendation.

Quick approvals along with funding of requests to continue our information technology initiatives –particularly in creating a claims and grants processing system -- will enhance productivity and achieve additional efficiencies. Recommendations regarding eliminating steps and accelerating payments to local governments are currently addressed in our automated ledger system which is scheduled for completion soon.

Recommendations regarding application review, reimbursement, final inspections and audit processes may provide additional economies.

OES is intrigued by the recommendation that a risk-based approach to reviewing request for reimbursement and conducting final inspections should be implemented, and we will explore appropriate processes within the limits of our responsibilities.

With the help of BSA, OES has made great improvements over the past year, and we remain committed to continuing to solve the problems suggested in these reports.

Sincerely,

RICHARD ANDREWS
Director

# Comments

To provide clarity and perspective, we are commenting on the Office of Emergency Services (OES) response to our audit report. The following numbers correspond to the numbers we have placed in OES's response.

(1) This report does not simply restate the issues contained in our earlier report on OES. As required by the Legislature, this audit examined OES's administration of the disaster assistance and hazard mitigation programs and identified specific aspects of those operations that could be improved. The Legislature asked us to generate recommendations for a more efficient and cost-effective process for managing claims and grant applications for state and local government. Our earlier audit had a much broader scope, including a review of OES's administration of the response, preparedness, and recovery functions as well as a description of FEMA's role in managing disaster activities. Unlike that audit, our purpose in this audit was to provide a thorough assessment of all OES's recovery activities—those within the control of the State—and not to assess FEMA's role, which would have been irrelevant given that scope.

(2) The Legislative intent of this audit was to assess areas under OES's purview where the Legislature can foster change, including whether OES should continue to administer the recovery function. Consequently, our report does not "nibble at the margins" of the disaster recovery process, but rather examines every aspect of OES's disaster recovery function.

(3) Throughout our report, we fully consider and describe FEMA's rules and regulations for administering disaster recovery. In fact, in some instances OES is doing more than necessary to meet FEMA's requirements.

(4) In this report we make recommendations that will improve those disaster recovery functions that are within OES's purview. In bringing up a discussion of the policies and practices of FEMA, the director is attempting to deflect the focus away from improvements that OES can make in its own management of

disaster recovery. Throughout the report we provide numerous opportunities for OES to make substantial cuts in processing time.

(5) The director's statement about "goals and deadlines" is demonstrative of a fundamental flaw in OES's management philosophy. As we discuss in the report, to ensure the successful completion of any plan requires that OES set priorities, establish deadlines, and designate responsibility and accountability for completing the various tasks included in the plan. OES hired the contractor that prepared the strategic plan for information technology and accepted and adopted it. Therefore, if OES believed the plan's implementation schedule was not realistic, then OES should have had it revised or refused to accept it.

(6) Only one of the projects mentioned by the director was included in OES's strategic plan for information technology. Contrary to the director's belief, that project—the automation of OES's time-reporting system—is not fully operational. In fact, as of January 17, 1997, only 15 percent of OES's employees were using the automated system to track their time.

(7) Despite altering its methods for requesting reimbursements from FEMA, OES has not sought reimbursement of all its direct costs for administering the disaster assistance program for 15 of 18 open disasters.

(8) The director is incorrect, we do not make this assertion. As we discussed in a meeting with OES management, we agreed to change the text of the report to say that OES does not balance its management attention and resource commitments to its varied responsibilities, and recovery from past disasters is negatively affected when new disasters occur.

cc:    Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
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